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White House Said to Warn Fed

Officials Worry Current Monetary Policy Risks Recession

By Paul Blustein and John M. Berry
Washington Post Service

WASHINGTON — Top Reagan administration officials, dismissing appeals from U.S. allies for higher interest rates to buoy the dollar, have instead voiced concern to the Federal Reserve that monetary policy may be so tight already that it risks a recession, according to administration and Fed sources.

The administration warnings have been private and mild compared with some past clashes between the White House and the central bank. But the development reflects the nervousness that senior Reagan advisers feel about the prospect of rising interest rates and a softening economy in the coming election year.

The administration's position also underscores its unwillingness to see the Fed raise interest rates to boost the dollar, even though the currency has been sliding to record

postwar lows against Japan's yen and West Germany's Deutsche mark. Some policy makers in allied governments have been privately and publicly urging the United States to raise interest rates to support the dollar, whose decline has made their nations' products more expensive in world markets.

Administration sources stressed that the White House and Treasury

The Federal Reserve supported the dollar in currency markets in late October. Page 13.

want to avoid a free-fall of the dollar, which could panic financial markets and eventually lead to a recession. They also said the Treasury has become more willing in recent days to intervene in foreign-exchange markets through the Fed to slow the dollar's descent by buying dollars and selling foreign currencies. But such intervention generally works only temporarily, and the administration stance suggests that the United States will be reluctant to accept demands by some trading partners for more substantive currency-stabilization moves.

Fed policy makers have shown no inclination in the last two months to raise interest rates just to defend the dollar, although they say there might be occasions when they would be forced to do so. Fed sources said policy makers at the central bank reject the notion that monetary policy is too tight, and

the sources reiterated that the Fed hasn't moved recently to squeeze credit.

The administration official most upset about current Fed policy is said to be Beryl W. Sprinkel, chairman of the Council of Economic Advisers. Mr. Sprinkel and some other aides who share his views have evidently persuaded more powerful officials, notably Treasury Secretary James A. Baker 3d and the White House chief of staff, Howard H. Baker Jr., that there are grounds for worry.

According to Fed sources, the two Bakers have raised concerns with the central bank about the arguments advanced by Mr. Sprinkel.

Mr. Sprinkel, according to one source, has complained that the Fed is risking an economic downturn by draining all of the cash it poured into the banking system in the aftermath of the Oct. 19 stock market plunge. At the root of the debate he sees disparate opinions about how to determine when Fed policy is tight or loose.

Mr. Sprinkel is a monetarist, paying close attention to any expansion in the supply of money when credit policy is relaxed or any decline when it is restricted. In this case, he is alarmed by an unexpected fall in the money supply in November. The narrowest measure of money, called M-1 and including currency in circulation and check-

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Palestinians Arrested in 5th Day of Gaza Violence

Two of the Palestinians arrested Sunday during a raid on the Mughazi refugee camp in the Gaza Strip were guarded by Israeli soldiers. During the fifth straight day of violence in the occupied territories of the West Bank and the Gaza Strip, 20 Palestinians were wounded by gunfire from Israeli troops, Arab sources said.

U.S. Says It Awaits Results

Caution Urged In Aftermath Of the Summit

WASHINGTON — Reagan administration officials mixed confidence with caution Sunday, predicting progress on arms control but warning that it is premature to express euphoria over the Washington summit meeting.

Vice President George Bush said the treaty to ban intermediate-range nuclear forces signed by Ronald Reagan and Mikhail S.

The U.S. secretary of state has rejected the idea of a Nordic nuclear free zone. Page 5.

Gorbachev last week was an "important psychological point" in the arms race because it marked an agreement to destroy weapons.

But in one of a round of post-mortems on television interview programs, Mr. Bush said the treaty does not mean the U.S.-Soviet relationship has been transformed.

"To suggest that we have some euphoric agreement now on where we go in the world is not true," he said.

Despite Mr. Gorbachev's winning ways and mastery of public relations, Mr. Bush said: "This man is tough. You know Gromyko was right — nice smile, but teeth of iron." He was referring to Andrei A. Gromyko, the Soviet president and former foreign minister.

Both Mr. Bush and the White House chief of staff, Howard H. Baker Jr., stressed that President Reagan had no illusions about Mr. Gorbachev, the Soviet leader. Their assurances came at a time when Mr. Reagan was being criticized by some conservatives for the arms accord, and for generally being too friendly with the Kremlin.

One of those voicing caution has been Bob Dole of Kansas, the Sen-

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As Required, Reagan and Gorbachev Made Summit a Success

By David Hoffman and Don Oberdorfer
Washington Post Service

WASHINGTON — In the soft elegance of the White House library, President Ronald Reagan was waiting impatiently for the words. Just a few minutes remained in the three-day summit meeting with Mikhail S. Gorbachev, but first they had to approve the final language on the issue Mr. Reagan held so dear, his dream to build a defense against nuclear missiles.

The president was handed a draft of the document and read the words, but he said he could not see a difference from earlier versions of the joint statement. He listened to Secretary of State George P. Shultz explain that both nuclear superpowers could pursue their missile defense programs "as required."

Mr. Reagan then turned to Lieutenant General Colin L. Powell, his national security adviser. "Mr. President," General Powell said, "I think we're fully protected."

With that, Mr. Reagan said yes. He walked out and met Mr. Gorbachev, who had been across the hall in the Map Room with his advisers. They quietly shook hands, and the words were sealed.

Only 14 months before, Mr. Reagan and Mr. Gorbachev had argued and eventually stumbled into bitter recriminations over just one word, "laboratory." In the final moments at the 1986 Reykjavik summit meeting, the Soviet leader wanted to bottle up Mr. Reagan's missile defense system, the Strategic Defense Initiative, in the laboratory, and Mr. Reagan walked out.

In Washington, they found a way out of the semantic box. They had not settled their great differences over nuclear and space defense, but they had found two new words to live by: "as required."

This was less than Mr. Reagan had wanted. Just three days earlier, on the day Mr. Gorbachev arrived, Mr. Reagan had approved a secret directive setting forth much broader negotiating objectives on space defense than he was able to achieve in the meetings with Mr. Gorbachev. By the same token, Mr. Gorbachev was unable to obtain his goal of putting limits on the U.S. anti-missile program. The result means that, at least for now, each side will go its own way in the space defense area.

The final moments spoke volumes about the Washington summit meeting. This 16th meeting of U.S. and Soviet leaders since Franklin D. Roosevelt and

Josef Stalin first met in the throes of World War II, the third on U.S. soil, and the third between these two men, did not mark a great breakthrough in the long, difficult history of the relationships between the two nations. As the two crucial words suggested, it was a meeting of pragmatic advances, of measured steps along a path marked out in Geneva in 1985 and Reykjavik in 1986.

As they stood on the rain-swept South Lawn of the White House on Thursday, both Mr. Reagan and Mr. Gorbachev proclaimed it a success.

For the first time, the two most heavily

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Martens Heads For Defeat in Belgian Poll

BRUSSELS — Prime Minister Wilfried Martens appeared to be heading for defeat in general elections Sunday after leading Belgium through six years of economic austerity.

With about 20 percent of the seven million votes counted, computer predictions indicated that gains by the opposition Socialists would deprive his center-right coalition of its majority in the 212-seat Chamber of Deputies.

"It's obviously a great disappointment," Mr. Martens said in a television interview.

He added: "It's not possible for me for the moment, on the basis of the figures I have before my eyes, to form a coherent and stable government."

The election, called early because of renewed feuding between Belgium's French- and Dutch-speakers, follows six years of economic austerity from the four-party coalition of Christian Democrats and Liberals, each of which has a

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Wilfried Martens

Sandinist Military Chief Outlines Major Buildup

By William Branigan
Washington Post Service

MANAGUA — The Sandinist government is engaged in a long-term military buildup aimed at putting up to 600,000 Nicaraguans under arms by 1995 and equipping the Sandinist armed forces with advanced Soviet-made MiG fighter planes, missiles and artillery, Defense Minister Humberto Ortega Saavedra has confirmed.

In a move apparently intended to pre-empt revelations in Washington by a high-level Sandinist military defector, Mr. Ortega outlined plans Saturday to continue a 15-year military buildup that he said started in 1980.

"This is a right that we are not going to renounce, whether Mr. Reagan likes it or not," Mr. Ortega said in a combative 90-minute speech to about 600 union delegates. He said the buildup was necessary to resist an eventual U.S. invasion and "let the gringos know that this is not Grenada."

[In Washington, Lieutenant General Colin L. Powell, President Ronald Reagan's national security adviser, indirectly warned Sunday both the Soviet government and the Sandinists not to undertake such a military buildup.

"We would view such an introduction of advanced Soviet weaponry into the region as a serious matter," General Powell said in a television interview. "I would suggest it would not be in the interest of U.S.-Soviet relations and would not be in the best interests of the people of Central America for such weapons to be introduced in the region."

Mr. Ortega said that Nicaragua has hundreds, if not thousands, of officers who were being trained in East Bloc countries to learn how to use the expected equipment.

The speech appeared to confirm disclosures by a close aide to Mr. Ortega, Major Roger Miranda Bengoechea, who defected to the United States on Oct. 25 and was interviewed by U.S. reporters last week.

After the interview, the U.S. government made available some documents that they said Major Miranda had brought with him, including what were described as secret military cooperation protocols with the Soviet Union. The protocols reveal projected increases in manpower and Soviet-supplied equipment that, if implemented, would put about one-fifth of Nicaragua's population under arms in the next seven years.

The United States was launching a campaign to "confuse international public opinion by painting it as something terrible that Nicaragua, a sovereign independent country, has relations with socialist countries in the field of defense," Mr. Ortega said.

"This is a right of our country," he said, adding that Nicaragua would never cut such relations because of U.S. pressure.

Major Miranda said that the plans detailed in the documents he brought with him show that the Nicaraguan armed forces, including militias and reserves, will grow from 250,000 members at present to 370,000 by 1990 and to 500,000 by 1995. The plans call for the regular army to shrink from 80,000 to 70,000 by 1990 and remain at that level, he said.

Mr. Ortega, in his extemporaneous speech, gave even higher figures for projected Sandinist armed strength.

"In a little while we will be at 300,000, and we are going to make the effort to have 600,000 men organized in the echelons of the general defense of the country," he said, adding, "We do not renounce having more modern armaments adequate for our defensive system." He said this included fighter planes, anti-aircraft missiles, tanks, artillery and armored vehicles.

Mr. Ortega's assertions came as reports circulated in Washington that Mikhail S. Gorbachev, the Soviet leader, in a session with Mr. Reagan last week, had offered to suspend Soviet military aid to Managua if the U.S. aid to rebel forces was not resumed.

If carried out, the planned buildup would outstrip other Latin American countries' military capacity in percentage terms, Western observers said. More than 20 percent of Nicaraguans would be under arms. By comparison, according to U.S. estimates, Cuba has a total of about 1.6 million people in its armed forces, reserves and militias — amounting to about 17 percent of the population.

North Pole East: The Real Story

In Hong Kong, No Reindeer or Snow but Much Green Tea

By Patrick L. Smith
International Herald Tribune

HONG KONG — Here's a true-life look at Santa's workshops for those who've graduated from rompers. One of them is a 15th-floor factory in the congested Kowloon industrial district, where the ventilation is not good and even the streets reek of noxious petrochemical fumes.

Another is down a dirt road in Shenzhen, a Chinese special economic zone bordering Hong Kong. The work gets done and the orders are met — most of the time — despite spotty electricity supplies, poor telephone service and a distinct shortage of reindeer.

Santa's Asian helpers earn as much as \$12 daily, not much by North Pole standards but still a source of concern to the round man and all his cost-conscious pursuers. And that is not hot cocoa they are drinking as they pore over this year's production; it's cheap green tea.

Hong Kong's 2,005 toy makers, who produce more dolls, ducks, miniature Porches and mechanical minnows than anyone else in the world, come in all shapes and sizes, like the gadgets they manufacture. There are factories with 10 workers and factories with 3,000. Many

have not yet graduated into movable parts. Others turn out electronic parrots wired for sound, remote-controlled semitrailers and toy computers.

Hong Kong's close competitors have their specialties. The South Koreans, for instance, are very big in "plush," which means stuffed toys covered in acrylic fur. Taiwan

silver hair cry out for a fur-trimmed red suit. "Hong Kong can make the maximum number of toys in the fastest time at the best price and with the right quality. That's where we score."

Flexibility and versatility in one of the world's most fickle markets have put toy production, along with garments and electronics, among Hong Kong's largest industries. And to no one's surprise, local toy makers are heading for a record year.

Although there is widespread concern here about the buying power of U.S. consumers, the effects of a recession in the United States, Hong Kong's largest customer, would be felt only next year.

For 1987, industry experts forecast growth of about 10 percent over last year, when \$2.1 billion worth of toys — another record — were exported.

At this stage in the cycle, that is not a risky prediction. Christmas starts early in Hong Kong — 14 months early. Local producers have been busy since late October preparing molds, prototypes and mock-up samples of what might find its way into St. Nick's sack in December 1988.

The toy fairs start after the first of the year — first in Harrogate, in



Two youngsters discuss toy prospects in a French shop.

No Breakthrough Toys For Europe This Year

By Kurt Ruderman
International Herald Tribune

PARIS — What are the smash-hit toys that Santa Claus will be handing out this year?

If the toy makers of France, Britain and West Germany can be believed, there will not be a single best-seller this season.

It has not been that way in recent Christmas past. Parents and toy-sellers can recall youngsters screaming for such hits as pocket-size computer games, Cabbage Patch dolls and robots transformable into, say, rockets.

But now, industry sources report, traditional toys are back in style: dolls, stuffed animals, board games. One of the better sellers in the latter category in all three countries is Mattel's "Masters of the Universe," all about space heroes who combat evil.

And Mattel's Barbie doll, although approaching 30, is still popular.

Two broad toy types dominate the market. One is the television-related item, produced mostly by U.S. and Asian companies. The other is the Europe-created toy that requires children to add their fantasies and imagination to the play-time experience.

Benoit Korbacher, director of

the Nuremberg Toy Fair and the West German Toy Federation, said that although he believes that the toy market is international, the market share held by U.S. manufacturers is not large enough to allow them to dictate taste or trends.

"To Americans are forced to adapt their toys to the German market," he said. "War toys, for example, are not very popular in Germany. Imported, for the most part, they represent only 0.2 percent of sales."

Horst Brandstätter, owner of Brandstätter GmbH, producer of the popular Playmobil line, said that "the difference between our toys and American toys like Mattel's is that Americans give the child a toy that already has a story — the child does not have to think. We believe that toys should bring out a child's creativity."

The U.S. influence was discussed in Brussels in November, during a meeting of the European Toy Institute, according to Gordon Webb, of the British Toy and Hobby Manufacturers Association. "The French are very preoccupied with the American challenge, especially by Mattel's success in France," he

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The Waldheim Controversy: All Solutions Are Bad

President Kurt Waldheim's wartime activities have generated controversy for nearly two years. The report of an international commission on his record as an intelligence officer with a German unit in the Balkans is expected next month. Michael Lingers, the former managing editor of *Profil*, Austria's most respected news magazine, first broke the story of Mr. Waldheim's past. He spoke recently to the *IHT's Ferdinand Protzman*:

Q. You recently estimated the odds of Mr. Waldheim stepping down at 70 to 30 against. Do you still hold that view?

A. Yes. If the historical commission doesn't produce evidence that he personally committed war crimes, which I don't think it will, then those odds remain.

Q. Do you believe he should step down?

A. When this began, I felt he should withdraw his candidacy because he did not tell the truth about his past, and later did not find the correct words to judge his past. One simply cannot say, "I only did my duty," if one was a member of a staff that commanded war criminals. But I don't believe Waldheim should step down because he won't be received abroad. One shouldn't bow to foreign pressure, but act from one's own moral values.

Q. Would his resignation end the turmoil?

A. Unfortunately, there is no solution. If he stays, it's bad for the country because it hurts us internationally. He goes and it's

bad for the Jews who live in Austria, because some people will claim "World Jewry" forced an innocent Austrian president to resign.

Q. What about his membership in two Nazi organizations?

A. He was not a Nazi, more an anti-Nazi. His memberships in the National Socialist Studentbund and the SA Reichswehr were

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not counterproductive. These were entirely subordinate Nazi organizations. It was possible to be a member without even knowing it yourself.

Q. Is such historical insight relevant to the current situation?

A. These conditions must be known to assess the situation accurately — many American journalists unfortunately don't have the slightest idea. Austrians are correct in rejecting the suggestion that he was a Nazi and war criminal, at least from the known evidence. It is always possible new, very damaging documents could surface.

Q. Why do many Austrians now openly say he should leave?

A. What many people dislike about Waldheim is his lack of love for the truth. I say the majority of Austrians stand behind him

and do not seriously confront themselves with the question of whether or not he lied.

Q. Why not?

A. It has happened so often here that politicians lie about their past. It doesn't particularly stir people up.

Q. When you wrote the first Waldheim article what was your motivation?

A. The truth. Rumors were flying around that The New York Times would publish material against him. We asked him if he had anything to fear and said we would check his answers. We found the two memberships. It bothered us that he didn't touch this at all in his autobiography. We also thought he would express himself more reasonably. Only when he continually disputed everything, even when it was proven, did we oppose him. His comment about doing his duty, finished him off for me, personally.

Q. Why do you think he has behaved so clumsily in this matter?

A. To his credit, he was under a certain shock, suddenly being accused as a war criminal. But I regard Waldheim to be roughly about as clever as he was dynamic, efficient and successful as UN Secretary General. And he was badly advised.

Q. How did Austria's two main political parties react to the story?

A. The Socialist Party in some way joined the reporting against him, hoping the accusations would hurt. They didn't do it out of anti-fascist conviction, but to weaken the opposition candidate. That only aroused scorn for the whole affair.

Q. How so?

A. In 1975, the Socialist Party proposed Friedrich Berger to be president of parliament. He had been a member of a Waffen SS death brigade in Russia that killed hundreds of thousands of people, including women and children. Naturally, he concealed this, and when finally asked about it, said, "I only did my duty." So the criticism of Kurt Waldheim struck Austrians as mendacious.

Q. And the People's Party?

A. They saw the chance, after a very long time, to win an election. That made Alois Mock (head of the People's Party) blind to all objections to Waldheim. Their fall from grace began when the affair started heating up more and more anti-Semitism. Alois Mock and his secretary-general, Michael Graff, apparently speculated politically with this anti-Semitism. They never gave a single television interview in which they didn't use sentences which were greedily snapped up by many latent anti-Semites here. In my eyes, such conduct is much worse than Kurt Waldheim's.

Security Strict in Manila On Eve of ASEAN Talks

By Seth Mydans
New York Times Service

MANILA — The myriad security concerns of the Philippines came to the fore during the weekend on the eve of a six-nation regional summit meeting.

The leaders of the Association of Southeast Asian Nations began arriving Sunday for their first gathering in 10 years.

Helicopters, coastal patrol boats, bomb-sniffing dogs and a security force of 10,000 men have been deployed against possible threats from rightist bands, Communist rebels or any others who might wish to embarrass the government of President Corason C. Aquino.

The arrests last week of the leader of an attempted coup in August and of a bomb expert linked to former President Ferdinand E. Marcos have boosted the confidence of the Philippine hosts.

But the military's chief spokesman, Colonel Oscar Florendo, said that security forces "should not be lulled into believing there are no threats."

Mrs. Aquino said that the reputation of her government rested on the successful completion of the meeting.

She said she hoped to prove to the sometimes skeptical visiting leaders that "we are not only very capable but very dedicated to our task."

After the coup attempt, officials of the other ASEAN nations — Indonesia, Malaysia, Singapore, Thailand and Brunei — raised questions about the possible cancellation of the Manila meeting. The meeting became a matter of national honor for the Philippines. The instability that has accom-

panied the opening of a "democratic space" that invites leftists to take part in politics has caused concern among neighboring nations.

Warnings by armed rightist groups that seek to destabilize the government have made the meeting a focus of the uneasiness.

Several bombings have been discovered and defused, or have exploded with some injuries, in what have been seen as warnings of possible violence when the leaders gather.

In response, the Philippines has permitted its guests a virtually free hand in augmenting their own security.

Philippine officials said six Indonesian warships and four Malaysian vessels had been deployed in Manila Bay in case of any major disruption of the meeting.

Indonesia, which has been most vocal about its security concerns, is reportedly bringing a helicopter and at least one bulletproof car.

Preliminary meetings began Saturday among foreign and domestic ministers to complete agreements to be signed by the six leaders.

The Japanese prime minister, Noboru Takeshita, is scheduled to join the meeting Tuesday.

Rebels Consider Truce
Communist rebels said Sunday they were considering a Christmas truce and hinted they would wind down their street war in Manila, which has claimed 100 lives this year, Reuters reported.

The offer, by rebel officials, was made public hours after the police blamed the Communist guerrilla New People's Army for launching a daring attack on a police command post on the outskirts of the city.



Prince Vikram Singh, 23, sitting across from his veiled bride, 20-year-old Princess Chitrangda Scindia, during the wedding ceremony at the Jai Vilas Palace in Gwalior, India.

In India, 'Happy Synchronicity'

A 'Royal Wedding' Is Rich in Color and Controversy

By Steven R. Weisman
New York Times Service

GWALIOR, India — The slim young prince arrived in a silver carriage, wearing a sash and gold tunic draped with pearls, diamonds and rubies. The princess emerged from an immense fairy-tale palace that shimmered with strands of white lights.

Then as 20,000 guests applauded, the son and daughter of two of India's wealthiest and most influential former maharajahs were married under a red and gold canopy in an outdoor ceremony as rich in political and social controversy as it was in pageantry.

Many in India deplored the celebration Friday as a case of gaudy excess, a throwback to a time best left behind. But others saw it as a sumptuous "royal wedding" that called attention to traditions the country is in danger of forgetting.

"It is a happy synchronicity that may never recur in India," said Karan Singh, a former maharajah of Kashmir, former cabinet minister and father of the groom. "In today's context, it is also an interesting and perhaps unusual alliance, rather like a Rockefeller marrying a Kennedy."

India abolished royal titles when it absorbed 300 autonomous princely states at independence in 1947. But the wedding proved that people remember how the British used to accord a 21-gun salute to the maharajahs of only five such states — among them Gwalior and Kashmir, brought together this night.

Until recently, Vikram Singh, the 23-year-old groom, was studying business administration and playing polo at the University of Southern California in Los Angeles.

In an interview before the wedding, he acknowledged that at least one American woman was brokenhearted when he decided to return home for a marriage more or less arranged by his family. "My decision was based on my feeling that it was time to do what would make me happy in the long run," he said.

Although he had spent only a small amount of time alone with his 20-year-old bride-to-be, Chitrangda Scindia, Mr. Singh said he had fallen in love.

Other people at the wedding go-

siped about how the event represented an alliance of two prominent politicians who continue to be addressed as maharajah but probably draw more power and prestige as friends of Prime Minister Rajiv Gandhi.

The two fathers had promised a low-key event, and indeed only one elephant led the bridegroom's procession.

'It is an interesting and perhaps unusual alliance, rather like a Rockefeller marrying a Kennedy.'

— Karan Singh, former maharajah of Kashmir

cession. The bride's father, Mahavraj Scindia, decreed that no food or drinks would be served in deference to the misery spread by drought in northern India.

The wedding was the year's biggest celebrity event, drawing a glittering array of the wealthy and the famous, including the king of Nepal, a relative of the bride's mother. Mr. Gandhi, who had attended an earlier engagement party, apparently decided it was impolitic to attend.

The wedding also had its share of historical ironies. It was from the rambling, Italianate Jai Vilas Palace, for example, that Mr. Scindia's grandfather took the prince of Wales on a tiger shoot in 1922.

The maharajah was a well-known railroad buff who served his dinner guests liqueur, candy and cigars on a tiny silver tray that rolled on tracks atop the banquet table.

The current Mr. Scindia is Mr. Gandhi's minister of state for railroads. In the town of Gwalior, where there was singing and celebrating throughout the evening, people said he had improved the town's rail connections with other parts of India.

Mr. Scindia, 42, was elected to parliament in 1984 as part of the new wave of young people brought in by Mr. Gandhi, and has been mentioned frequently as one of the cabinet's stars.

But as the scion of a feudal family that has built temples, schools, palaces and other monuments all over India, Mr. Scindia also has been heir to more than a few princely headaches. He is barred on speaking terms with his mother, who also is in Parliament — as a leader of the opposition National People's Party.

The newspapers have gleefully reported the Scindia family feuds over money, politics and property. Many say that Vijaya Raje Scindia — known as the Rajmata, or queen mother — was furious when her son joined the governing Congress Party because she had been jailed during the 1975-77 state of emergency imposed by Mr. Gandhi's mother and predecessor, Prime Minister Indira Gandhi.

Mrs. Scindia had in fact scheduled an anti-government demonstration for the wedding day but postponed it. "I'm just a grand mother today, not a politician," she said at the wedding.

After Voting, South Korea Faces Time Of Testing

By Fred Hiatt
Washington Post Service

SEOUL — South Koreans will vote this week amid fears of violence, intimidation, vote-buying, biased media coverage, ballot-box stuffing and other forms of fraud.

That will be the easy part. The real test will come, many people here believe, after the voting on Wednesday. South Koreans are gambling that, after 26 years in power, an authoritarian, military-dominated elite will give way to democracy without violent revolution or counter-coup.

Many Koreans say that their literate, increasingly prosperous population is in a better position to pull off such a political miracle than most societies are. Despite all of the fears and rumors to the contrary, they say, the nation has conducted this presidential campaign with remarkable restraint.

But they also acknowledge that the problems facing them in the days, weeks and months after the election are more than formidable. "No matter who wins," a businessman said Sunday, "it's going to be a mess."

Wednesday's victor, who is almost certain to receive less than 50 percent of the vote, will face grave challenges from the start. If it is the ruling party's nominee, Roh Tae Woo, the danger will be a popular uprising questioning the fairness of the vote; if an opposition candidate wins, the threat could come from the army.

Some Koreans already are stockpiling rice, noodles and other staples in anticipation of trouble, a source said Sunday.

"The guy's going to be shaky no matter who wins," a Western diplomat said. "Sixty percent of the people will have voted against him."

If the winner survives the immediate challenges, he will bump into longer-term and possibly graver problems: trade pressure from the United States that could slow South Korea's export-led economy, virulent regional prejudice fanned by the campaign and rising expectations among all sectors of society after a year of exceptional economic growth.

"Whoever becomes the president, there will be strikes this spring, and they will be difficult to control," Kwack Taewon, an economist at the Korea Development Institute, said last week.

Mr. Kwack and others find some grounds for optimism. They cite the fundamental soundness of the economy, for instance, and a budding cushion from the sale of government corporations planned for the next five years.

Several people interviewed said that the Olympic Games, scheduled to be held in Seoul next September, will serve as a brake on all special interest groups, since the games are a point of pride for this developing nation that no one wants to jeopardize.

But the prospects are far less rosy than many expected when President Chun Doo Hwan, according to weeks of street protests, promised six months ago to allow this election. Mr. Chun's concession seemed to pave the way for a showdown, after years of coups and constitutions imposed to prolong regimes, between the forces of democratic opposition and the ruling elite.

The Catholic struggle never took shape, however, because the two long-time leaders of the opposition, Kim Dae Jung and Kim Young Sam, both decided to run. With the entry of a fourth candidate, former Prime Minister Kim Jong Pil, the campaign turned into a bitter, name-calling affair with no clear favorite and no candidate who seemed to rise above personal ambition.

With poll takers predicting that a one-third plurality might bring victory, Kim Dae Jung has concentrated, with increasing ferocity, on warning the government not to "steal" the election.

In the text of a speech he gave to a huge rally in Seoul on Sunday, Mr. Kim warned that committing election fraud could lead Mr. Chun to a fate like Choi In Kyu, a home affairs minister who was executed for masterminding vote fraud before a 1961 coup.

An aide to Mr. Kim, T.C. Rhee, said that if Mr. Roh wins through cheating "there will be a rebellion, there will be a revolution — a revolution in the sense that there will be blood, there will be weapons."

WORLD BRIEFS

Bishops Clarify Stance on Condoms

WASHINGTON (UPI) — In response to hundreds of phone calls questioning the Roman Catholic bishops' stand on the use of condoms, the church has issued a clarification, maintaining that a major policy statement on AIDS, or acquired immune deficiency syndrome, did not advocate use of the birth control device.

Archbishop John L. May, president of the National Conference of Catholic Bishops, cautioned Catholics on Saturday to read the statement carefully. "I want to stress that our statement does not call for any changes in the church's constant teaching concerning proper moral behavior," he said. The statement did say that Catholic schools should develop materials on AIDS prevention.

The archbishop said the bishops have criticized "campaigns promoting condoms to prevent transmission of the AIDS virus." He said their statement "urges abstinence outside of marriage and fidelity within marriage as well as the avoidance of intravenous drug abuse as the only morally correct and medically sure way to prevent the spread of AIDS."

Aden Sentences Ex-President to Death

ADEN, South Yemen (AP) — The Supreme Court has sentenced former President Ali Nasser Mohammed and 33 supporters to death. The deposed leader was quoted Sunday as calling the verdicts a "fresh massacre."

In an interview with the Abu Dhabi newspaper *Al-Itihad* after the sentences were handed down Saturday, Mr. Mohammed warned that the move threatened national security. He was convicted of treason for the civil war in January 1986, when he was deposed after 12 days of battling between rival wings of the governing party. Mr. Mohammed lives in exile with thousands of his supporters along the mountainous border regions of North Yemen.

The verdicts marked the end of a yearlong trial of 142 people. Of these, 48, including Mr. Mohammed, were tried in absentia, and 18 were sentenced to death. Of the 94 in custody in Aden, 16 were condemned to death.

30 Dead, 66 Hurt in Soviet Rail Crash

MOSCOW (Reuters) — Thirty people were killed and 66 injured when a freight train hit a stationary passenger express train in the Soviet republic of Georgia last month, the Communist Party newspaper *Pravda* said Sunday.

The crash at the station in Ruisbulo, 25 miles (40 kilometers) southeast of the Georgian capital of Tbilisi, occurred Nov. 29. The passenger train was carrying mainly servicemen.

Soviet television reported Saturday night that the chief of the Transcaucasian railroad network, G. Maisuradze, and his deputy, Y. Kapuradze, were dismissed after the accident. The driver of the freight train, who was reported to be asleep when the crash occurred, was killed.

Gunmen Kill 2 Policemen in Soweto

JOHANNESBURG (WP) — Gunmen with automatic rifles fired at a police vehicle in Soweto late Saturday, killing two black policemen and wounding four others, the authorities said Sunday.

It was the most serious attack on the South African police in several months and underscored warnings by the government that black nationalist guerrillas planned to escalate violence before Christmas.

The police in Pretoria said the shooting took place in the Meadowlands section of the black township. The gunmen fired from a vehicle and escaped, a police spokesman said.

Jailed Kenyan Lawyer Is Released

NAIROBI (WP) — A prominent Kenyan lawyer, whose nine-month detention without trial triggered worldwide protests about human rights abuses, has been freed by order of President Daniel arap Moi.

The release of Gibson Kaman Kuria, 40, an Oxford-trained lawyer who specialized in defending political prisoners, came as Mr. Moi delivered an angry speech denouncing human rights organizations that "interfere with our internal affairs."

Mr. Kuria was arrested at his Nairobi law office in February on the day after he had filed suit against the Kenyan government on behalf of three political prisoners. The lawsuit alleged that the police had tortured his clients to try to force confessions of seditious activities.

For the Record

Thousands of students and faculty members at the University of Foreign Economic Relations and Trade in Beijing attended a memorial service Saturday for a student whose death by stabbing at a campus store sparked calls for tighter security and better medical care.

The Liberation Tigers of Tamil Eelam in Sri Lanka pledged Sunday to crush rival separatist groups after two days of factional fighting killed at least three people.

A Philippine Airlines plane disappeared Sunday with 15 persons aboard during a domestic flight to Mindanao island. A rescue official said the twin-engine turbo-prop plane was on a flight from the island of Cebu to Iligan City, 150 miles (240 kilometers) to the south.

TRAVEL UPDATE

Italian Train Engineers on Strike

ROME (AP) — Italian train engineers began a 24-hour spontaneous strike Sunday afternoon, while government ministers met with Alitalia and union officials to try to keep airports open Monday.

The airport strike was called for all day Monday. By late Sunday afternoon, there was no word on the progress of negotiations to avert that walkout, and foreign airlines said they were expecting substantial delays.

The strike by the train workers came in defiance of an agreement reached Saturday between the state-run rail system and Italy's three trade union confederations. The rail strike was scheduled to end at 4 P.M. Monday.

Nigeria has threatened to suspend air traffic with Britain beginning Feb. 12 over a dispute about landing rights.

A 37-mile (60-kilometer) stretch of the West German autobahn between Cologne and Aachen was closed Sunday for three hours because of fog. It was the first time that a part of the autobahn network, which has no speed limit, was closed.

Air France baggage handlers began a 24-hour strike Sunday at Orly Airport near Paris as Air France pilots ended a four-day strike.

This Week's Holidays

Banking and government offices will be closed or services curtailed in the following countries and their dependencies this week because of national and religious holidays:

WEDNESDAY: Bahrain, Bangladesh, Namibia, Nepal, South Africa.
THURSDAY: Bhutan.
FRIDAY: Niger.

Source: Morgan Guaranty Trust Co., Reuters.

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AMERICAN TOPICS



ON COMET, ON CUPID, AND ON PONTOONS — Santa Claus had to make early deliveries to get to remote outposts near Ketchikan, Alaska. Reaching the Eskimo communities and logging outfits requires a sea plane.

He Won the Battle of the Bottle With a Refusal to Swear Off

For 25 years James Almbad of Portland, Oregon, was "in an intoxicated stupor," and for the last 10 of those years he failed at his every attempt to overcome alcoholism. Alcoholics Anonymous meetings, doctors, psychiatrists, "faith healers and witch doctors," books, conferences, alcohol-abuse clubs, anti-alcohol drugs, even prayer, "although I'm an atheist." Nothing worked "beyond a day or maybe a week."

Then he hit on this technique, according to his letter to U.S. News & World Report, and for over two years it has worked:

"I wake up and tell myself: 'Tomorrow, I'll get drunk as a skunk — tomorrow.' Since I quit trying to figure out reasons for my alcoholism and gave up the useless attempts to stop drinking, I can relax — at ease with myself in the present because tomorrow I'm getting drunk. Never today, always tomorrow."

Short Takes

Only 739 people received U.S. doctorates in mathematics in the 1986-87 school year and only 362 of them were U.S. citizens, according to Edward A. Conners of the University of Massachusetts, who makes an annual survey jointly sponsored by the American Mathematical Society and the Mathematical Association of America. This is down from 986 math doctorates in 1972-73, of whom 774 were Americans. Mr. Conners blamed much of the decline on a decades-old shortage of qualified elementary school and high school math teachers.

Some New Jersey cities have long complained about having prisons named after them, so prisons have been renamed with geographical designations: Rahway State Prison is now East Jersey State Prison, Leesburg State Prison has become Bayville State Prison.

More people are going hunting but fewer are getting shot and killed in hunting accidents. Experts credit safety courses, now required by 35 of the 50 states for anyone applying for a first-time hunting license, and blaze-orange hunting clothes, mandatory in 41 states. In Michigan, for example, which requires both, the number of hunters grew from 718,000 in 1940 to 1.5 million in 1986, but gunshot deaths dropped from 35 to 9.

Frisella Steenhook shows tourists around the small white frame house in Somerset, Iowa, where the actor John Wayne, was born May 26, 1907. The son of the town druggist, Clyde Morrison, and his wife, Mary, Wayne changed his from Marion Robert Morrison. Miss Steenhook, responding to a question, said: "No, I'm not a John Wayne fan. I was raised on Gene Autry, and you really cannot compare the two."

Notes About People

Nancy Reagan was the force behind removing hard-line conservatives from the administration, according to a forthcoming book, "Behind the Scenes" (William Morrow & Co.) by Michael K. Deaver, former White House deputy chief of staff. Mr. Deaver writes that he and Mrs. Reagan worked together to persuade President Ronald Reagan

to replace Richard V. Allen and William P. Clark as national security advisers, Donald T. Regan as chief of staff and James G. Watt as interior secretary. Mrs. Reagan "would wage a quiet campaign, planting a thought" and "making a case. Foreign policy will be hurt, our allies will be let down." And "it was Nancy who pushed everybody on the Geneva summit" with Mikhail S. Gorbachev, the Soviet leader, in 1985, Mr. Deaver writes. "She felt strongly that it was not only in the interest of world peace but the correct move politically."

Rear Admiral John M. Poindexter, a former national security adviser to Mr. Reagan, has retired from the navy at his permanent two-star rank of rear admiral with a \$52,764 annual pension for 29 years of service. Pentagon sources said that the navy secretary, James H. Webb Jr., had held up a request by Admiral Poindexter, 51, to retire at his higher White House rank of vice admiral until the investigation into the Iran-contra affair is completed.

Judge Robert H. Bork has broken his silence over the U.S. Senate's rejection of his nomination for the Supreme Court by a 58-42 vote on Oct. 23. He said in a speech he was mistaken in getting down to specifics before the Senate Judiciary Committee, that its members were mostly concerned that the result be "politically expedient." He remarked that "the vast majority of senators have not thought much about constitutional theory." Judge Bork compared himself to "a man who had been tarred, feathered and ridden out of town on a rail," adding: "If it weren't for the honor, I'd rather have walked."

—ARTHUR HIGBEE

Senate Bill Includes Funds for Contras

By Jonathan Fuerbringer

WASHINGTON — The Senate has approved a \$606 billion catch-all appropriation bill that includes \$7.6 billion of the spending cuts required by the budget compromise between Congress and the White House. It also includes about \$16 million in nonmilitary aid for the Nicaraguan rebels.

The bill was approved 72-21, just before 3 A.M. Saturday after 17 hours of debate. It now goes to the House of Representatives, which approved its own version of the bill last week without any aid for the rebels. A conference committee will begin working out differences early next week.

A spokesman for the speaker of the House, Jim Wright of Texas, said that the aid proposal, which includes \$9 million in nonmilitary supplies and \$6 million to \$7 million for transportation costs, "is clearly not acceptable."

But aides to the House Republican leadership and an important Democratic representative said they thought it could be approved. President Ronald Reagan has threatened to veto the entire spending bill if it does not include nonmilitary aid for the rebels.

"Something is going to survive the conference because the president is insisting on something in there," said Representative Robert H. Michel of Illinois, the Republican leader. "There will be something there but I am not sure what the magic figure will be."

The appropriation bill is one of two measures that are needed to carry out the deficit-reducing package agreed to last month by congressional leaders and the White House. Under the agreement, the deficit for the 1988 fiscal year, which began Oct. 1, would be reduced by \$30 billion. The deficit is now projected to be as high as \$179 billion without any action to reduce it.

The other bill, which the Senate approved early Friday, provides \$9 billion in tax increases and \$17 billion in spending cuts, fees for the use of government services and sales of federal assets. Except for a three-year extension of the 3-percent telephone excise tax, the increases in 18 taxes would affect for the most part corporations and wealthy individuals. The House of Representatives approved its version of this bill in October.

Dozens of other amendments were approved by the Senate, including a proposal allowing the re-

sumption of military and economic aid to Pakistan, the sale of Stinger anti-aircraft missiles to Bahrain, and an eight-month delay in the deadline for the enforcement of federal clear air standards in about 60 urban areas.

The surprise of the session was the passage of the nonmilitary aid to the Nicaraguan rebels, known as contra. The aid was approved on an unusual standing vote in which senators are counted but the tally is not announced. This was the first direct vote on continued aid to the contras by the Senate, which was taken over by the Democrats this year.

The Senate amendment would provide \$9 million through the end of February for food, clothing, shelter and medical supplies and services. In addition, it would provide money to pay the cost of transporting the supplies to rebel bases. Senator David L. Boren, Democrat of Oklahoma, who heads the intelligence panel, said this transportation aid could total \$6 million to \$7 million.

Senator Ted Stevens, Republican of Alaska and the sponsor of

the contra aid amendment, said the rebels would be able to transport some military equipment that already had been purchased on planes carrying the nonmilitary supplies. He estimated there could be about \$1.5 million of military supplies that could qualify.

In an effort to tie the money to the peace negotiations under way in Central America, the amendment says that if a cease-fire is negotiated between the contras and the Sandinista government of Nicaragua by Jan. 17, the supplies and the transportation money would be given to "nonpolitical humanitarian international organizations" for distribution.

The rebels have received a little over \$3 million a month in nonmilitary aid from the United States since October, when \$100 million in military assistance to them expired. The nonmilitary aid expires next week, and the Democratic leadership in the House so far has opposed efforts to renew it while the peace process continues.

Another amendment the Senate approved was one to allow the sale of shoulder-fired Stinger anti-aircraft missiles to Bahrain for 18 months. The administration wants to sell 60 to 70 of the missiles to Bahrain, but the Senate Appropriations Committee had included a ban on such sales in the bill.

Canada Rearrests U.S. Businessman In High-Tech Plot

New York Times Service

VANCOUVER, British Columbia — Charles McVey 2d, an American fugitive wanted in the United States in connection with a multi-million-dollar plot to sell advanced technology to the Soviet Union, was rearrested in a courthouse here seconds after the judge freed him on an extradition warrant.

At the extradition hearing Friday, Judge Raymond Cooper cited major errors in the documentary evidence supplied by the U.S. government and released the 64-year-old California businessman. But Mr. McVey remained free for only about 30 seconds.

As he walked from the court, he was rearrested on new charges by the United States that he and others had transported stolen computer software from California to British Columbia. He was taken into custody again and is to appear in court again on Wednesday.

At the Friday hearing, Mr. McVey was accused of being the ringleader of a complex plot to export sophisticated computer hardware illegally to the Soviet Union through Switzerland and Mexico. The charges said that millions of dollars worth of U.S. computers wound up in six Soviet scientific agencies, including the Soviet Space Research Institute, the Atomic Energy Institute and the Computer Research Institute.

Ozal Ends Checkup in U.S.

Reuters

ANKARA — Prime Minister Turgut Ozal of Turkey returned home Sunday following eye surgery and medical checks in the United States.

Defector Cites Sandinist Ploy on Arias Plan

By Joe Pichirallo and Terri Shaw

Washington Post Service

WASHINGTON — A former senior aide in the Nicaraguan government who defected to the United States in October says the Sandinists have adopted a strategy to turn the regional peace plan signed by Nicaragua and four other Central American countries into a "weapon" to consolidate Sandinist control.

In his first interview since defecting, Major Roger Miranda Bengoechea said last week that, acting on the direction of the Nicaraguan defense minister, he oversaw the diversion of \$1.4 million in Defense Ministry funds to a numbered Swiss bank account for the personal use of the minister, Humberto Ortega Saavedra.

U.S. officials consider Major Miranda, who has been extensively defebried by the U.S. Central Intelligence Agency, to be credible and to represent a major breakthrough in penetrating the Sandinist hierarchy.

In a news conference last month, General Ortega, brother of the Nic-

araguan president, Daniel Ortega Saavedra, confirmed that Major Miranda had been one of his closest aides. He said the major, whom he called alternately the "little worm" and "traitor Miranda," had had access to "important military information and documents" and had taken copies of some records.

He charged that the Reagan administration would attempt to "manipulate" Major Miranda's information and mount a "propaganda show" against the Sandinists to undermine the Central American peace process.

As head of the defense minister's secretariat since 1982, Major Miranda said he had access to minutes of closed meetings of the nine-member National Directorate of the Sandinista National Liberation Front, which rules Nicaragua. He said he also acted as a liaison with the army general staff and other branches of the government and that he sometimes sat in on private conversations between the Ortega brothers.

Major Miranda was interviewed in a guarded State Department conference room. His revelations

during more than four hours of questioning, arranged and monitored by State Department officials, included the following:

• He said the Sandinists have negotiated secret military agreements with the Soviet Union and Cuba that call for a major military buildup over the next seven years, including delivery of MIG-21 jet fighters and enough arms for a military force of 500,000 full- and part-time soldiers.

• In addition to General Ortega's Swiss bank account, Major Miranda said, top military officers have used a slush fund in Panama for personal expenses.

• In violation of the regional peace plan, written by President Oscar Arias Sanchez of Costa Rica, the major said, the Sandinists continue to support leftist Salvadoran guerrillas.

• In the event of a U.S. invasion of Nicaragua, which the major said the Sandinists expect, the government's secret defense plan calls for taking U.S. Embassy officials hostage and spreading the conflict throughout the region, including dropping bombs on targets in Costa Rica.

• The effects of the six-year war against the rebels, commonly known as contras, have begun to take their toll inside Nicaragua. Major Miranda said the contras' greatest failure has been their inability to tap the discontent in Nicaragua's urban centers.

"As the years pass," the major said, "the situation of the Sandinista leadership gets more difficult. That does not mean that in the next month or so they will be defeated, but that the effects of the war are beginning to be felt in such a poor country as Nicaragua. Humberto Ortega has said he is beginning to feel the rope around his neck."

He said the Sandinists are insecure about their relationship with Moscow and "afraid that the Soviets will negotiate over their heads."

Nicaragua's continued pressure on the Soviet Union to increase military aid, he said, is partially an attempt to extract a deeper security commitment. In particular, he said, Nicaraguan leaders see their request for a squadron of MIG-21s, which Moscow promised but never delivered, as a test of the Russians' true intentions.

Haitian Junta's Election Council Sworn In

Reuters

PORT-AU-PRINCE, Haiti — The Supreme Court has sworn in a new Election Council chosen by the government to reopen the voting process suspended on Nov. 29 following violence in which more than 30 people were killed.

The ceremony Saturday in the Palace of Justice, with heavily armed troops in the building, appeared to support the view of many Haitians that the new elections, scheduled for Jan. 17, will be controlled by the military.

The nine council members were named Friday to replace the council that was dismissed after gangs using machine guns and machetes killed people attempting to vote. The violence caused the postponement of the elections, which were the first in Haiti in 30 years.

The political opposition said the dismissal of the independently chosen Election Council was unconstitutional, refused to recognize the new one and called for the resignation of the government, led by Lieutenant General Henri Namphy.

The government had accused the old council of rigging the November elections in favor of a leftist president.

The opposition contends that General Namphy's government is trying to fix the outcome of the Jan. 17 elections in its favor by picking the new commission.

Makeup of New Panel

Earlier, Julia Preston of The Washington Post reported from Port-au-Prince.

The government announced on Friday the names of its nine appointees to the electoral board.

None of those selected is a prominent figure. Political observers said, "Not one of them is known by anybody," said Louis Roy, one of the authors of the 1987 Haitian Constitution.

The constitution, approved by an overwhelming public vote in March, stipulates that the Roman Catholic and Protestant churches, human rights groups, a journalists' association, a university council, a confederation of agrarian cooperatives, the Supreme Court, the government council and one other government-linked group must each name a representative to the Election Council.

All but the Supreme Court and the government declined to choose new delegates to replace those they

selected for the dissolved electoral board. Since they declined, the constitution can be interpreted to give the government the right to pick delegates of its own.

The four main opposition parties argue that the ruling government council violated the constitution by abolishing the first electoral board and have demanded that it be reinstated.

General Namphy has been heavily criticized by the United States, Canada and France, among other Western nations, over the collapse of the elections. But he gained support from the conservative prime minister of Jamaica, Edward P.G. Seaga, and the leaders of

four small Caribbean islands who visited Haiti.

Mr. Seaga said that General Namphy had assured him the Haitian armed forces would provide adequate security for the January voting. The army did not intervene to halt the Nov. 29 violence.

Mr. Seaga said he did not ask General Namphy to explain the violence, which he said was "history." He added that he was satisfied the government "is working sincerely to hand over power Feb. 7, and they are doing it in a manner consistent with the constitution as they see it."

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Other Comment

From Jonathan Swift to Mikhail Gorbachev

To End America's Logjam, First Extract the 'Key Log'

\$2 Trillion: Much of It Was Not for Defense

At the Manila Summit, Worried Support for the Host

Autumn in America

Like Détente, But Without The Others

100, 75 AND 50 YEARS AGO

1887: Diplomatically III

the poor postman staggering along with household articles and farm produce strapped to his back in addition to the usual bag of mail.

1937: U.S. Gunboat Sunk

pan's undeclared war on China, and might even make it possible for Britain and the United States to cooperate in the region.

addition to the usual bag of mail. . . are in checking Japan in China.

Shultz Says Nordic Zone Can't Be Nuclear-Free

By John M. Goshko
Washington Post Service
COPENHAGEN — Secretary of State George P. Shultz rejected on Sunday the idea of a Nordic nuclear-free zone and said that such concepts undermine the type of unity within the Atlantic alliance that led to the U.S.-Soviet treaty on eliminating intermediate-range nuclear missiles.

At a news conference concluding his two-day visit here, Mr. Shultz chided advocates of declaring the Nordic region — Denmark, Norway, Sweden and Finland and the Baltic Sea — a zone that the superpowers should recognize as off-limits to nuclear war.

"The problem is the Soviet Union has nuclear weapons, and they can aim them at you, and you can't determine where they will hit," Mr. Shultz said.

Denmark, although member of the North Atlantic Treaty Organization, has one of the strongest anti-nuclear movements in Western Europe. Prime Minister Poul Schluter's conservative government opposes the nuclear-free zone idea, but it is a persistent and potentially potent notion for the country.

Its advocates argue that there are no nuclear weapons in the Nordic region since the two NATO members, Denmark and Norway, refuse to accept them on their territory during peacetime. That, in turn, leads to an argument that since the region poses no nuclear threat to the Soviet Union, the Soviet Union should reciprocate by eliminating the Nordic countries as potential nuclear targets.

However, Mr. Shultz noted, seeking such special treatment for Denmark and Norway would work against the cohesion of the North Atlantic Treaty Organization. "We must all stand together, or we will hang together," he warned.

Mr. Shultz came to Copenhagen after reporting to NATO foreign ministers in Brussels on the treaty to eliminate medium- and short-range nuclear missiles signed in Washington last week by President Ronald Reagan and Mikhail S. Gorbachev.

"Why were we able to get that agreement?" he asked. "A key reason is that NATO had the strength of will when we objected to the Soviet deployment of SS-20 missiles to say that we would negotiate for their removal or deploy U.S. missiles ourselves" in NATO countries.

For the alliance, he said, that means keeping up its conventional as well as its nuclear forces. And he added:

ARMS: Caution Urged

(Continued from Page 1)

ate Republican leader, who said of Mr. Gorbachev: "I think he wants to have this new relationship with the United States. But I think we have to realize we live in very different societies. It's godless communism."

The issue of human rights is one example of the problems still dividing the superpowers. Mr. Baker acknowledged that despite Mr. Reagan's having placed the issue on a par with arms control during his meetings with Mr. Gorbachev, "We don't have anything to show for it yet."

Mr. Reagan also failed to gain a promise from Mr. Gorbachev on when the Soviet Union will move its 115,000 troops out of Afghanistan. And, on another of the so-called regional conflicts, Mr. Gorbachev left American officials puzzled by a comment on Nicaragua.

Lieutenant General Colin L. Powell, the White House national security adviser, said: "The general secretary made a few cryptic references to an arrangement where they would reduce their level of arms support to something in the neighborhood of small arms, or he even said 'police weapons' at one time, and he made a reference to our doing likewise. We'll follow up on that to see what it really means."

General Powell also denied that Mr. Reagan and Mr. Gorbachev had reached an accommodation on U.S. support for the Nicaraguan rebels and Moscow's backing of the Sandinist government, saying, "No deals were made."

Mr. Bush, reiterating Mr. Reagan's position, said the United States should continue to aid the Contras, as the rebels are known, until the Sandinists "go down the democratic road" to free elections.

Mr. Baker said an agreement between the superpowers to tone down the controversy over a space-based missile defense system should help the effort to reach an accord on cutting long-range nuclear weapons by 50 percent.

The two nations have agreed, at least for now, to stop arguing about what limits the 1972 anti-ballistic missile treaty places on development of Mr. Reagan's research effort for a space-based defense, known as the Strategic Defense Initiative.

Montand Rules Out Bid For French Presidency
PARIS — The actor and singer Yves Montand, after 18 months of press speculation that he might run for president of France in the spring, says that he has no ambition for the job.

"I know my limits," Mr. Montand said Saturday in an interview on French television. "It's not my ambition." He said he would vote for President Francois Mitterrand.

"I must say that Denmark could contribute more to defense than the 3 percent of its gross national product that it does now. In doing so, it would contribute to the safeguarding of its own democracy and freedom."

Soviet Briefing in Bonn

The head of the Soviet Foreign Ministry's arms control department, Viktor P. Karpov, and Foreign Minister Hans-Dietrich Genscher of West Germany agreed that an accord on a 50-percent reduction in strategic nuclear arms can be achieved by mid-1988, Reuters reported from Bonn.

The West German Foreign Ministry issued a statement saying that Mr. Karpov had briefed Mr. Genscher on Saturday about the Washington summit meeting, and that both men had agreed on the prospects for an accord on long-range missiles.

Chirac's Pledge to Bonn

Prime Minister Jacques Chirac of France says that his country will respond unreservedly in the event of an attack on West Germany, Reuters reported from Paris.

Mr. Chirac's pledge, made Saturday in a speech at the Institute for Higher Studies on National Defense, was the first time a French leader had so clearly committed his country's forces to the defense of West Germany.

"There cannot be a battle for Germany and a battle for France," Mr. Chirac said. "Who can now question, in the hypothetical case of West Germany being a victim of aggression, that France's commitment would be immediate and without reserve?"



A helicopter chartered by CBS News helped rescue the crew of the tanker Pivot in the Gulf.

GULF: Iran Said to Use New Device to Set Tankers Afire

(Continued from Page 1)

was leaving the Gulf for Japan with a load of napalm from Kuwait.

The flames were so intense that fire-fighting tugs were forced to stay clear and allow the ship to sink. The Norman Atlantic was the first tanker to be sunk in the Gulf War, which began in 1980.

A source said: "If the Iranians are using a new weapon and if we are going to have more Norman Atlantics and Pivots it is going to become most uncomfortable for merchant seamen."

There were no casualties aboard the Norman Atlantic. One crewman aboard the Pivot was burned.

U.S. Aided in Rescue

John H. Cushman Jr. of The New York Times reported from aboard the La Salle, the U.S. Navy command ship in the Gulf:

An American warship helped rescue the crew aboard the Pivot, according to officials on the La Salle.

The rescue Saturday by the guided missile destroyer Chandler was

the most dramatic assistance by U.S. forces to tankers flying foreign flags since the start of a naval buildup in the Gulf this summer when the United States began providing escorts to Kuwaiti tankers flying the U.S. flag.

The tanker's crew was rescued by an SE-2 Lamps maritime surveillance helicopter, based aboard the Chandler, and by a privately chartered helicopter carrying a CBS News crew.

A pregnant woman was among those rescued from the Pivot, officials on the La Salle reported.

SANTA: This Year, the Big Hits Are Golden Oldies

(Continued from Page 1)

said. "In Britain, we've got used to American products and companies like Fisher Price that manufacture in Britain."

Mr. Webb said he believed that U.S. firms, to a large extent, dictate taste in the toy world. "The Americans have been setting trends for almost 10 years," he said, "and the British toy industry has become an extension of the American industry. Today all the new ideas are coming from America — California, to be precise — and Japan."

TOYS: Workshop Asia

(Continued from Page 1)

tures are reluctant to allow more than a tiny fraction of a production run into local shops.

It is possible to save on freight charges and U.S. markups by shopping on a business trip in the local outlet of, say, Toys R Us. Ex-factory costs in Hong Kong are generally a fourth to a sixth of the retail price of a toy in the United States or Europe.

But it is just as possible to pay more for a toy in Hong Kong than in New York, since the object that will make your offspring smile for at least five minutes may have been to New York before landing on the shelf of a retail chain back in Hong Kong.

Although growth in the industry has been steady since it started here in the late 1950s, as plastics were finding wider uses, the rising costs of labor, land, energy and other inputs have now brought Hong Kong's toy manufacturers to a turning point.

Encouraged partly by the Chinese-British agreement under which Hong Kong will return to Beijing's control in 10 years' time, toy makers have drifted steadily into neighboring Guangdong Province over the past few years. So far this year, 40 percent of Hong Kong's toy exports were at least partly manufactured in southern China.

For some large producers, as much as three-quarters of production now takes place on the Chinese mainland. By making this shift, they are able to reduce labor costs by 25 percent to 50 percent, depending on the product involved and how much of it is made in China.

As toy makers readily acknowledge, the China connection requires tight controls on production schedules and quality. But it has allowed Hong Kong to keep an industry it otherwise would have to pass on to lower-wage nations such as Thailand, which is now beginning to develop its manufacturing base.

But he added that he did not believe that U.S. influence threatened the British toy industry's well-being. He said that Blue Bird Toys PLC, one of Britain's largest toy makers, has had success with several traditional toys such as The Big Yellow Teapot, The East End Market Stall and Hamburger Bar.

Harve Partzoff, marketing director of Mattel France S.A., disagrees with the idea of American dominance. "Americans do not dictate taste," he said, adding that Mattel toys are developed by international teams of researchers that include psychologists, pedagogic experts and engineers in the United States and abroad. "There is an exchange of ideas," he said. "Some of Barbie's accessories were developed in France."

The fact that Playmobil exports to countries all over the world, Mr. Brandstatter said, has not forced the firm to adapt to specific U.S. or foreign tastes. "Our toys are international. A Playmobil policeman is not an American policeman nor a Japanese policeman. He is a just a Playmobil figure to which the child must add his or her imagination."

But he conceded that U.S. manufacturers, because of their size and through media campaigns, are able to influence trends. "German parents dislike American toys but frequently give in to their children's whims," he said.

Dany Breuil, marketing director of Smoby S.A., said that typically French toys can sell abroad. In general, French successes come from toys that imitate everyday life. Among the big sellers are a French vegetable stand with a toy scale and a toy golf cart.

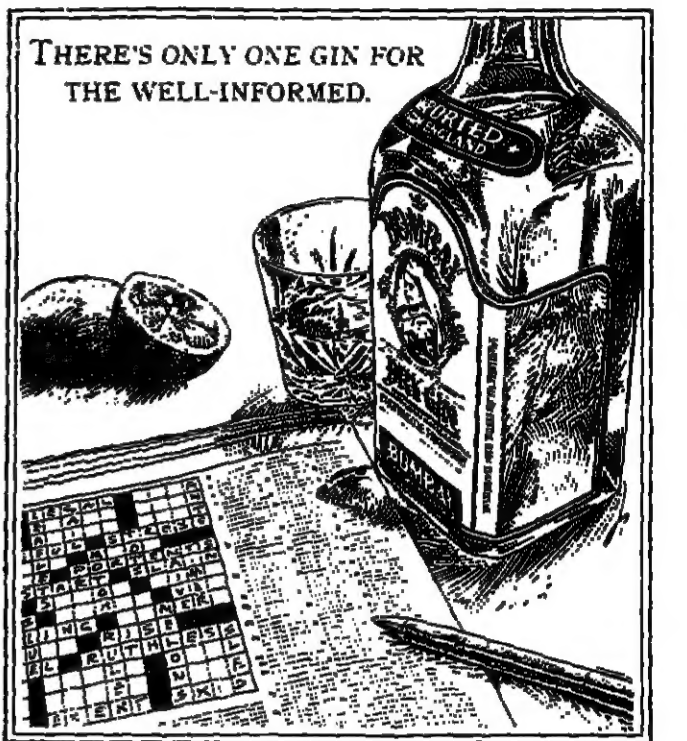
"Corolle," France's most popular doll, is a classic, high-quality product, produced by Ets. Anselme S.A., a spokesman said. Sales of Corolle in the United States rose in the aftermath of the Cabbage Patch craze. Since then, 20 percent of the firm's exports have crossed the Atlantic.

Pascal Sarda, of Le Train Bleu, a Paris toy chain, said that in addition to the return to classic toys, media-related products are among the best sellers.

"The television series inspired by GI Joe has made the toy our best seller among boys 5 to 11," Mr. Sarda said. "Barbie is still a popular doll. However, Corolle's Cabbage Patch doll is the star this season."

In Britain, where media-oriented toys are readily accepted, U.S. and Far Eastern imports account for 70 percent of sales. British production last year amounted to £326 million (\$596 million). Of this, £131 million worth was exported, 70 percent to Common Market countries. Production so far for 1987 is up 10 percent.

The Lego Group, a Danish toy maker, is also increasing its market share in Britain — as it is in the United States, Germany, France and Italy, despite U.S. competition. "Unlike Mattel, Lego does not use media to create fads," said Peter Ambeck-Madsen, a company spokesman. "Lego is a creative material, and this is why it is an international toy. There is nothing exclusively Danish about it. Children use Lego to re-create what surrounds them or interests them, from miniature toys to national monuments and spaceships."



SUMMIT: Two Words on Space Defense Were Key to Success of Meeting

(Continued from Page 1)

armed nations had signed a treaty to eliminate a whole class of nuclear weapons, medium-range and short-range missiles.

Mr. Reagan had hoped to move toward a separate treaty on space defense issues, disconnecting the subject from the offensive arms reductions. But if this could not be done — in fact, the Soviets refused to move in this direction — Mr. Reagan set out these U.S. objectives in the space defense area: Soviet acceptance of a U.S. right to conduct "testing in space as required" as part of the preparations for SDI, and Soviet agreement that the United States would be permitted to deploy SDI defenses after the end of an agreed period of years during which neither nation could withdraw from the 1972 Anti-Ballistic Missile Treaty.

Both positions had been put forward by the Pentagon in interagency negotiations, and both were opposed by the State Department, which favored less ambitious objectives. Mr. Reagan had adopted the Pentagon view.

The Soviets, as the State Department had expected, adamantly refused to accept these two bids for acceptance of SDI. A U.S. official said that at one point, the Soviet arms negotiator, Viktor P. Karpov, snapped that he had heard all this before and demanded that the Americans "stop wasting my time."

At the Soviet Embassy on Thursday morning, according to several U.S. officials, Mr. Shultz and Paul H. Nitze, the president's arms control adviser, agreed to drop the demand for an explicit Soviet acceptance of "testing in space." They also dropped one for an explicit right to deploy missile defenses at the end of the specified period in which both sides would continue observing the ABM Treaty.

In return, the Russians tentatively agreed to a more ambiguous statement that each side "will be free to decide its own course of action" at the end of this period. As written, this does not rule out a Soviet increase in offensive weapons to offset U.S. strategic defenses if they are ever deployed.

Mr. Nitze and Mr. Shultz also continued to push for Soviet approval of the right of either side to explore space defense by "conducting their research, development and testing as required," which are permitted by the ABM Treaty. "In the U.S. view, this language would strengthen the administration's claim that it could conduct realistic tests in space under a broad interpretation of the ABM Treaty, although its meaning was not as clear as the original U.S. formula."

Mr. Shultz and Mr. Nitze left the embassy to brief Mr. Reagan at the White House, where Mr. Gorbachev was expected at 10:30 A.M., shortly after breakfast with Vice President George Bush. A Soviet aide called to say that Mr. Gorbachev was considering what Mr. Shultz and Mr. Nitze had reported, and would be 15 to 20 minutes late. Later, the Soviet Embassy called again and said Mr. Gorbachev suggested the convening of another working group meeting, this one a more confidential session involving only a few officials.

In all, Mr. Gorbachev dropped out of sight at the Soviet Embassy for nearly two hours, while Mr. Bush waited so they could go to the White House together. A Soviet aide later told a U.S. official that the Soviet leader used part of that time to communicate with the Politburo in Moscow.

Mr. Gorbachev and Mr. Bush finally left for the White House more than 90 minutes late. As the two leaders strolled on the White House grounds and then conferred over lunch, six arms-control officials met in the White House Cabinet Room to bargain on strategic and space arms.

With the pressure mounting sharply — the clock was ticking toward 2 P.M., when the two leaders were scheduled to say goodbye

at the end of their meetings — the crucial deals began to be made. According to several U.S. participants, they were:

• The Soviets insisted that the two nations agree to observe the ABM Treaty "as signed and ratified." Mr. Shultz argued that the issue of what was meant when the treaty was ratified was a domestic dispute between the administration and Congress, and the Soviets should keep out of it. Mr. Shevardnadze gave in.

• Mr. Shultz repeated the U.S. position that the ABM Treaty permitted research, development and testing "as required," and said it was essential to obtaining Mr. Reagan's approval of any communiqué. The Soviets finally agreed, although they made it clear that they did not accept the U.S. interpretation that these words justified realistic space weapons tests.

• Mr. Shevardnadze had earlier indicated that the Soviets could accept an accord under which each side would be "free to decide its course of action" if and when it finally withdrew from the ABM Treaty. But the Soviets balked at agreeing to this. Secretary of Defense Frank C. Carlucci, who had joined the meeting, read from notes in which Mr. Gorbachev had used a similar formulation in a discussion with Mr. Reagan earlier in the summit meeting. The Soviets gave way.

• The United States had demanded a statement that, in effect, could permit either side to withdraw from the ABM Treaty for such purposes as space testing. The Soviets refused to accept it. The United States gave in.

• The Soviets had demanded limits on sea-launched cruise missiles, a fast-growing type of nuclear weapon, but the Americans insisted that compliance with such a limit could not be verified. In a compromise, the sides "committed themselves to establish ceilings on such missiles" and agreed to seek ways to verify them.

• The United States had pro-

posed that the total of land-based and submarine-based ballistic missile weapons allowed by a new strategic arms treaty be limited to 4,800 warheads on each side. The Soviets had discussed the possibility of a 5,100-warhead limit. The Soviets said a compromise on 4,900 or 5,000 warheads might be worked out as part of a "package deal" encompassing other elements.

After some discussion, the two sides agreed on 4,900 ballistic missile warheads for each side in a new treaty. The United States has about 8,000 such warheads and the Soviet Union about 10,000 — thus such a cut would be a massive reduction, dwarfing the cuts called for in the INF Treaty.

The last-minute accommodation on space defense was not mentioned publicly by either leader that day.

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BELGIUM: Governing Coalition Is Headed for Defeat

(Continued from Page 1)

French-speaking and a Dutch-speaking wing.

The language division was apparent in the voting, with the Liberals faring best among the more prosperous Dutch speakers of Flanders and the Socialists performing well in the depressed French-speaking areas of southern Belgium.

The predictions gave the outgoing coalition 106 seats, a drop of nine that would wipe out its majority.

Mr. Martens's own Christian Democrats were forecast to lose seven of their 49 seats, while the party's French-speaking wing appeared headed for a loss of two of its 20 seats.

The two Socialist parties, one from each of the language areas, were expected to gain seven seats,

which would make them by far the biggest bloc in the legislature, with an estimated total of 74 seats against the Christian Democrats' 60.

The Belgian system of proportional representation makes it virtually impossible for a single party or political tendency to win a majority on its own, and a protracted period of bargaining could be needed to form a government.

Mr. Martens, 51, who has been prime minister for almost eight years, acknowledged that even if his coalition did better than first results suggested, it would be hard to keep the Socialists out of any new coalition.

To form a government, the Socialists would require the support of the Christian Democrats, the Liberals or both.

Mr. Martens blamed bickering among the partners for the down-

fall of his coalition, but he said the election results had made it no easier to govern.

"The elections have made political affairs singularly more complicated," he said.

Mr. Martens's government was toppled in October by a resurgence of the feuding between French- and Dutch-speakers, which has dogged Belgium since the modern state was founded in 1830.

The quarrel, accentuated by the prosperity of Flanders in the north and the decline of industries in French-speaking Wallonia, centers on a cluster of villages known as the Fourons near the linguistic border.

Josef Happort, a militant francophone official of the town whose refusal to perform his official duties in Dutch brought down Mr. Martens, continued his protest on election day by spoiling his ballot.

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Luxembourg L.Fr.	11,500	37	6,300	31	3,400	25
Netherlands Fl.	650	40	360	34	198	27
Norway (post) N.Kr.	1,800	38	990	32	540	26
— (nd. del.) N.Kr.	2,300	21	1,270	13	700	4
Portugal Esc.	22,000	52	12,000	47	6,600	42
Spain (post) Ptas.	29,000	41	16,000	35	8,800	28
— Madrid (nd. del.) Ptas.	42,000	15	21,000	15	10,500	15
Sweden (post) S.Kr.	1,800	38	990	32	540	26
— (nd. del.) S.Kr.	2,300	21	1,270	13	700	4
Switzerland S.Fr.	510	44	280	38	154	32
Rest of Europe, N. Africa, former Fr. Africa, Middle East \$	430	Varies by country	230	Varies by country	125	Varies by country
Rest of Africa, Gulf States, Asia \$	580	Varies by country	320	Varies by country	175	Varies by country

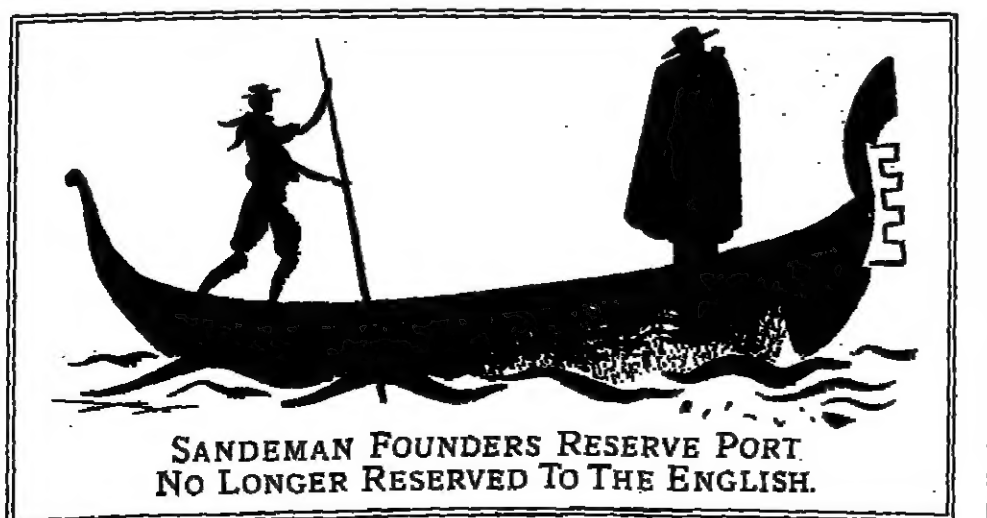
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Monday, December 14, 1987

INTERNATIONAL **Herald Tribune**

A Monthly Report for the International Investor

PEER 1988 OUTLOOK INTERNATIONAL INVESTING

Bonds: Disdain for The Dollar

By William G. McBride

MANY Wall Street bond traders showed up at their desks earlier than usual last Thursday morning, a bit anxious before a crucial 9 A.M. announcement of the U.S. trade deficit. When it came, there were gasps around the trading desks. The deficit was nearly 20 percent larger than many analysts had forecast.

The verdict was swift. The dollar tumbled and so did U.S. bond prices. Noted Robert Thomas, economist at Midland Montagu Ltd., in London: "The dollar is still extremely accident prone."

The vulnerability of the U.S. currency has convinced a lot of portfolio managers that the best bets in bonds in 1988 will continue to be in the non-dollar markets. "Another 10 percent decline would not surprise," says David Sheath, a fixed-income specialist with Phillips & Drew in New York.

That means 1988 would mark the fourth year in a row that non-dollar bonds outperformed dollar issues. Leading the pack so far this year are British government bonds, which have scored gains in U.S. dollar terms of over 43 percent, according to a Salomon Bros. index. A little over half the gain is currency appreciation. For the dollar-based investor, currency gains have contributed more than

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PROFILE



Templeton's Mark Mobius.

Mining Asia's Small Markets

By Patrick L. Smith

SCARCELY a few months ago, Mark Mobius was a picture of frustration. As managing director of Templeton Investment Management (Hong Kong) Ltd., the steep rise of indexes and earnings multiples from Seoul to Bangkok and Singapore was more than a deep sense of discouragement; it was something closer to a career hazard.

As president of the Templeton Emerging Markets Fund, Mr. Mobius is strictly bound by the investment philosophy for which John M. Templeton, who founded the mutual fund group bearing his name, is widely known: a stock's intrinsic worth is primary, and speculative potential counts not at all.

Given these guidelines, Asia's small markets had become almost impossible to play by last summer, Mr. Mobius says. Indeed, by September — six months after Emerging Markets was launched, a month prior to Black Monday — 46 percent of the fund's \$110 million in assets was still in the bank.

"I looked at the Asian markets and found that the value just wasn't there," says Mr. Mobius, 51. "We were having a tough time investing anywhere."

Those days are now over, however. By year-end, Mr. Mobius says with evident satisfaction, Emerging Markets will be fully invested for the first time. And as a measure of where he thinks value is most attractive, Asia's weighting moves from 50 percent of Emerging Market's assets to more than 70 percent.

Not surprisingly, perhaps, Mr. Mobius greeted October's global debacle with something less than total chagrin. Although the American Stock Exchange-listed, closed-end fund took its knocks — net-asset value went from an Oct. 8 high of \$10.73 a share to \$7.50 — the collapse in prices was the break he had been looking for all year. Last week, the fund was trading at about a 20 percent discount to its net asset value.

"We thrive on this kind of thing," Mr. Mobius says. "I'm not saying we're in for another boom, but it's going to be a pretty respectable year."

Given the increasing prominence of Asian markets in the global equities phenomenon over the past few years, Mr. Mobius is a near-perfect manager for the Emerging Markets Fund. Since earning a doctorate in economics at the Massachusetts Institute of Technology in 1964, he has spent almost his entire professional life in the region.

On joining Vickers da Costa's Asian team seven years ago, he opened the firm's Taiwan office — one of the first foreign techholds permitted by the Taipei government. He then headed International Investment Trust Co. Ltd., the first fund through which overseas investors could enter the Taiwan market, until joining Templeton last year.

Why is Mr. Mobius bullish on the region when most colleagues are making fundamental changes in their Asian investment strategies? The perspective is long term, for another thing, as it is for all Templeton managers. For another, Mr. Mobius is optimistic about the growth outlook even in the immediate term.

"Stocks have simply fallen too far out here," he says, "and economic conditions are better than many seem to think. I don't see a U.S. recession, but if there is one, it won't last long."

Apart from steady demand from the United States,

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Investing in a World of Heightened Risks

TOKYO:

The market defies a chorus of skeptics.

Foreign analysts, who have long comprised a kind of chorus of skepticism, seem to have given up predicting the collapse of Japanese equities. The Tokyo Stock Exchange defied all the prophets of doom this year, despite plummeting markets elsewhere. For 1988, no one expects a surge; neither is anyone forecasting a rout.

The forces driving Tokyo prices upward have changed dramatically in recent months. Until mid-1987, when an 18-month bull run came abruptly to a close, prices were driven essentially by liquidity, in part reflecting a reluctance among manufacturers to invest in productive capacity.

The 1986-87 surge saw the Nikkei index of 225 stocks double by last June.

Excess cash flooded into the market, even as economic growth

Continued On Page 8



Traders scrambled to record sales Oct. 22.

NEW YORK:

Amid gloom, some see hope in exports.

It has been a long while since Wall Street has been this gloom. Only four months after the Dow Industrials Average soared to 2,722, the question now is whether it will manage to close the year above 1,895, where it started last January.

As if talk of recession was not worrisome enough, year-end tax selling is expected to test the market in the next few weeks when investors try to wring some modest compensation for their losses during the last few months.

"There is a lot of uncertainty," says Steven Einhorn, co-chairman of the investment policy committee at Goldman Sachs. "For now, the market is not a terribly hospitable place to be."

While Mr. Einhorn does not expect large declines in stock prices, he sees few opportunities when comparing stocks with cash and short-term bonds. "The best I can offer for next year is a do-nothing market. I

Continued On Page 8

LONDON:

The good news is a strong economy.



K. Inglis

Around the City of London financial district these days, a single phrase has become virtual chant: "Cautious optimism."

The reasons for caution are obvious. No investment adviser who wants to be taken seriously could counsel otherwise given the losses U.K. stocks have sustained. On Dec. 3, the Financial Times-Stock Exchange 100 Share Index stood some 31 percent below its mid-July peak.

The optimism flows from confidence about the U.K. economy. The go-go recovery years may be gone, yet the economic outlook remains fairly upbeat.

Though forecasters have scaled down estimates to reflect about a £40 billion cut in financial wealth after the plunge in share prices, they still see inflation-adjusted growth next year of 2 to 2.5 percent. While that would be down from estimated growth of 3.5 percent to 4 percent for 1987, it is a respectable performance by British standards.

Continued On Page 8

EUROPE:

Currency turmoil deepens pessimism.

Though Continental stock markets have been asserting their independence in recent years, the October plunge has convinced brokers and fund managers that the fate of these bourses in the coming year will be tied to forces beyond their local control.

Most of these forces — psychological and fundamental — will likely be negative, putting further pressure on markets that have incurred declines of 30 to 40 percent over the last few months. Some of these markets were already on the ropes when the Oct. 19 punch hit.

In particular, the dollar's latest plunge will likely rob European economies of important export sales, producing lower corporate earnings while cutting economic growth to stagnation levels at best. Investors are being advised to play Continental equities as defensively as possible, with the best bets likely to be found in utilities, chemicals, pharmaceuticals, insurance and food stocks.

Roger Horne, European equities manager at James Capel & Co. in London, warns against a false rally in the months ahead that could trap unwary investors in another sharp fall later in 1988. The next meeting of the G-7 nations and a realignment of the European Monetary System could well spark a rebound in the short term. But when that rally arrives, he says, "It'll be a raging bear — as grizzly as they come."

Continued On Page 8



Charles Waller

By John Meehan

A YEAR ago, professional investors were debating which market would rise the most. These days, they agonize over avoiding the market most likely to stumble again. This obsession with preservation over performance is October's most important legacy.

"The underlying bull market in equities is no longer in tact," warns Gerold Bühler, manager of mutual funds for Union Bank of Switzerland in Zurich. "We're in a period where the risks are very difficult to measure."

Indeed, almost two months after the world's stock markets plunged in response to the historic 508-point decline in the Dow Jones Industrial average, the depth of the Oct. 19 disaster have yet to be measured with certainty. The October carnage wiped out about \$1.7 trillion of shareholder wealth worldwide, according to Salomon Brothers. But the economic consequences remain largely unknown.

Nothing better demonstrates this uncertainty than the distinctly conservative tone of global portfolios as investors prepare for 1988. Despite scattered indications that equity markets may be stabilizing, most money managers and investment strategists have shown little inclination to reduce the cash or bond portions of their portfolios.

Jane Hakham, who manages global equity portfolios for Gartmore Fund Management in London, has raised the cash portion of her funds to a hefty 30 percent. At the beginning of October, her cash allocation was about 8 percent. "In the short term, it's a good idea," she says. "This way I can put money into markets gradually when they show some improvement."

Thomas Robinson, chief international investment strategist for Merrill Lynch, tells his clients that about 20 percent of their portfolios should be in cash with the rest divided equally between stocks and bonds.

UBS, says Mr. Bühler, believes cash and bond exposure should be 62 percent or higher.

At Nomura Capital Management Inc. in New York, president Takao Nakamura has about doubled his normal cash holding to 9 percent and reduced the equity portion of a global portfolio to 33 percent from 38 percent. Bonds account for 53 percent of the portfolio, with five percent held in gold.

The heavy emphasis on fixed-income instruments reflects the belief that interest rates will continue to drop worldwide — at least in the near term — as central banks try to contain recessionary pressures and stabilize the dollar. "We will see a more stimulative style in Japan and Europe," says Mr. Bühler. "The central banks will have to compromise more."

With this in mind, some money managers perceive a certain degree of safety in European stock exchanges. This is especially true for the London market, which was among the hardest hit during the October crash and could benefit from a liquidity-driven rally early next year. Moreover, Britain's economy looks sound, while sterling appears relatively

Continued On Page 8

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Strategies for '88 Stress Preservation Over Performance

Continued From Page 7

insulated from the turmoil in currency markets.

For his U.S. investors, Merrill's Mr. Robinson recommends that British stocks account for 28 percent of their foreign portfolios, about double the normal weighting. On the Continent, he suggests a 24 percent exposure.

Ms. Hakham is similarly upbeat about London. She has about 20 percent of her assets in Britain and about 15 percent to 20 percent spread about other European markets. "Europe may not be exciting, but it's relatively safe," she says.

Even though the Japanese economy may prove to be the strongest in 1988, Ms. Hakham still believes Tokyo is too expensive. Only between 4 percent and 5 percent of her assets are committed to Japanese equities.

Mr. Bühner also believes the market is pricey. "In a world of higher risk," he says, "I prefer to underweight Japan even if we have to underperform in the near term."

In contrast, Wallace Wormley, manager of Prudential-Bache's Global Fund, is more enthusiastic. "Japan has held up better than other world markets and looks very strong on a macroeconomic level," he says. He has allocated 50 percent of his assets to the Pacific basin.

Caution clearly reigns when it comes to U.S. equities. Many fund managers and investment strategists expect the dollar to show some resiliency next year, but gauging the severity of the expected economic damage that should become obvious in 1988 is more difficult.

"I want a greater comfort level before committing myself," says Mr. Wormley. Ms. Hakham, who currently has no U.S. stocks in her portfolio, sums it up simply: "If the U.S. market goes up, why shouldn't other markets go up even more?"

As for smaller markets, which displayed surprising strength ahead of October's drop, investors appear less venturesome.

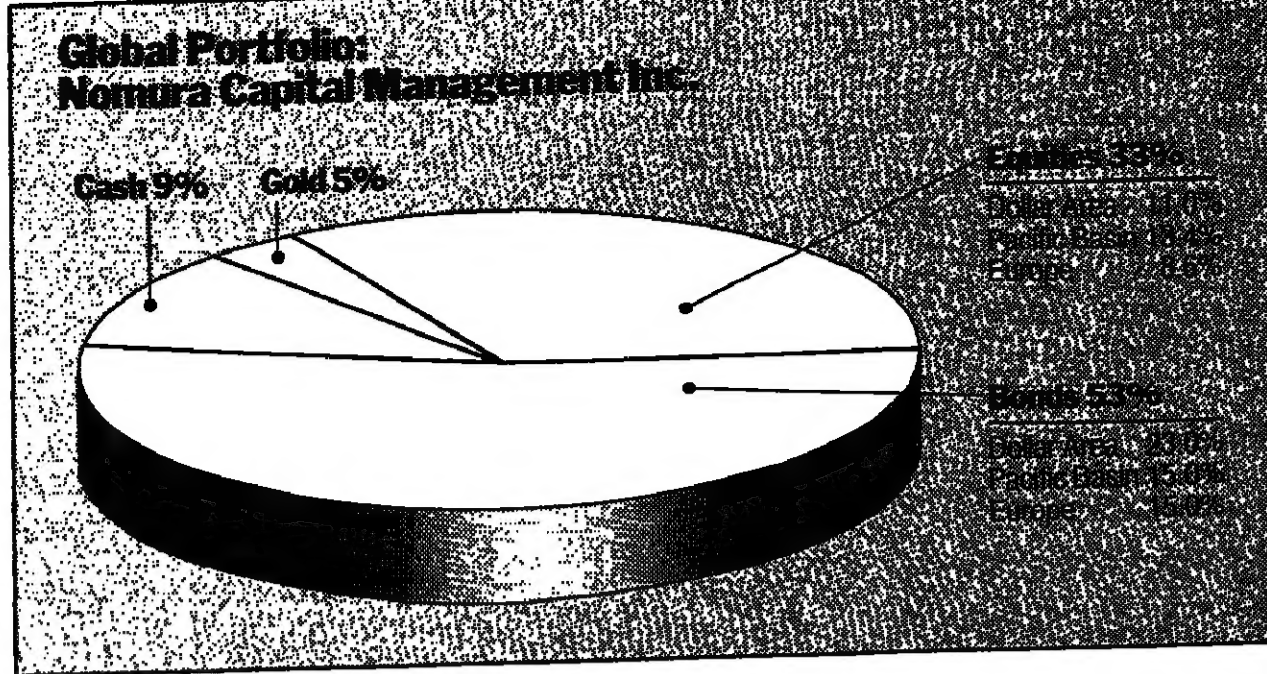
Concerned about the prevailing volatility in the markets and fearful that another sharp sell-off could trap them in difficult trading situations, many investment strategists now seem to place a premium on a market's size and liquidity.

This approach is similar to the so-called "flight to quality" strategy that emerged in equity markets around the world immediately after the crash as investors sought out big, liquid stocks.

Salomon Brothers believes this trend will benefit Japan and the United States, which have market capitalizations of \$2.6 trillion and \$2.3 trillion, respectively. Britain, with a market capitalization equivalent to \$645 billion, is also seen as a major beneficiary.

Some analysts still cite Hong Kong's decision to shut down for a week after the crash as a reason for caution when investing in this market even though it has generated strong returns up until October. They also express uneasiness about Singapore, which bore the brunt of foreign selling after Hong Kong closed.

Moreover, recent statements by U.S. officials condemning economic policies of these two small Asian nations, as well as those of Taiwan and South Korea, have raised concerns that their export-led economic growth may suffer next year.



NEW YORK:

Continued From Page 7

think we can protect the lows of October, but that's not compelling enough to recommit to the market."

Bearish strategists warn that even good economic news will do little to revive the market next year. John Connolly, chairman of the investment strategy at Dean Witter Reynolds, expects corporate earnings to go up sharply in the final half because of tax cuts. But, he says, the market probably will not respond.

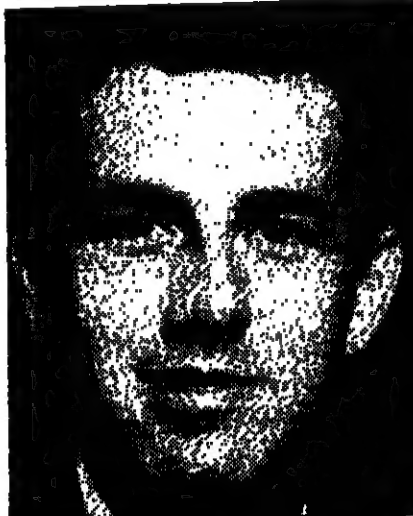
"There is going to be a recession, and the market knows that," Mr. Connolly says. "The question that remains is when."

The Dow could easily see new lows in 1988, he cautions. "Anything that happens between now and the actual recession is a prelude. It doesn't really matter."

Investor psychology may well get caught in the crosscurrents of next year's presidential campaign. Says Mr. Einhorn: "If a candidate who is viewed as negative for business picks up in the polls, it could be a negative for the market. Likewise, a pro-business candidate could cause a positive reaction."

Some strategists have a less bleak scenario. They say stock prices have risen beyond reasonable economic expectations last summer. The decline in October, they say, brought prices to more realistic levels. The result will be to reduce economic growth to a more sustainable pace, thus avoiding a severe recession.

"The problem with the markets in the U.S. and elsewhere wasn't a basic change in economic activity. The markets just got way ahead of themselves," argues Michael Shearman, chairman of investment policy at Shearman & Sterling. He believes the Dow could top 2,000 by next summer and possibly go as high as 2,200.



Steven Einhorn.

"Worldwide, markets have been filled with fear and confusion that is causing emotional aftereffects," says Martin D. Sass, president of M.D. Sass Investors Services. "Once we get into the new year and can assess the impact of the crash on the economy, we'll see that the fears of economic decline were overblown."

When emotions simmer down, Mr. Sass maintains, foreign investors — credited as a driving force both in the growth and crash of the market in 1987 — will come back. But they will be reluctant until the dollar stabilizes.

"Foreigners have been burned and they are not going to rush back," says Jack Laporte,

vice president and portfolio manager of T. Rowe Price in Baltimore, which manages \$13 billion in mutual funds. On the other hand, Mr. Laporte notes that the decline in the value of the dollar will continue to cast U.S. companies in an attractive light for foreign takeovers.

Technical analyst Robert Prechter, the Gainesville, Georgia-based editor of the Elliott Wave Theorist newsletter, sees 1988 as a choppy year, with a final lull in the fourth quarter. He expects the Dow to regain 35 to 65 percent of its 1987 decline in a rally that could run six to 12 months. The aftermath, though, will be brutal, he says. "There will be at least 2 years of relentless decline."

This last-year rally will be a great opportunity for nimble investors to buy and sell blue chips, Mr. Prechter says, but less experienced players should sit it out with cash. "It won't be a 'dart board' rally," he warns.

Stockpicks who rely on fundamentals recommend export-oriented manufacturing and industrial companies that are likely to benefit from cost-cutting and a lower dollar in the months ahead. "It's the only theme that applies to a market I basically don't like," says Mr. Connolly. Issues such as Caterpillar Tractor Co., Dow Chemical, Temple-Inland and Phelps Dodge get his cautious nod of approval.

Mr. Sass concentrates on the hardest hit sectors, including economically sensitive issues with international business. His favorites include IBM and smaller niche computer outfits such as Apollo Computer and Prime Computer.

Similarly, George Vanderheiden, a portfolio manager of Fidelity's Destiny I and II funds, is looking at firms like Caterpillar Tractor Co., Raychem Corp., International Paper Co., National Semiconductor Corp. and Texas Instruments.

Mr. Laporte at T. Rowe Price is looking for value in secondary stocks, the segment that has been devastated in the market this year, particularly since the crash. Secondary stocks have underperformed the S&P 500 and large-company stocks since 1983, he says.

"That cycle will end in 1988. Blue chips have substantially outperformed the rest of the market, which is likely to continue in the short run," he says. "But there will be a turning point next year when blue chips stop performing and secondary stocks will start." Liz Claiborne Inc., Service Corporation, LIN Broadcasting are a few companies he finds attractive.

Cynthia Catterson

TOKYO:

Continued From Page 7

slowed; financial stocks and asset plays seemed to be everyone's favorite speculative targets.

All this ended at midyear, when the economy started to strengthen. Powered by an unexpectedly strong jump in housing construction and personal consumption, manufacturing and industrial companies began reviving. Market sentiment quickly shifted to earnings-driven issues.

"This took everyone by surprise," says Timothy Schill, research director at Morgan Stanley International Ltd. in Tokyo. "You had a fundamental shift in market leadership, and it gave prices a big push through the summer months."

Tokyo followed New York and other markets downward in October — the event is known as "Black Tuesday" in Japan, since prices fell a session after the Big Board's 508-point debacle. But the drop of about 13 percent to current levels was far less drastic than the declines elsewhere, and the sense of stability in the market now is far greater.

Although the market is expected to remain flat at least into early 1988, overall economic growth forecasts for next year are at about 4 percent. Domestic growth will be slightly faster and could top 5 percent, analysts say. Corporate earnings are expected to advance by 15 percent or so; for manufacturers, the range is between 20 percent and 30 percent.

"In the near term, activity is unlikely to pick up significantly," says Hisamichi Sawa, first vice-president at Prudential-Bache Securities (Japan) Ltd. "But the market will move higher before next summer, and the driving force will be improvements in corporate profits."

Nonetheless, there are some significant unknowns. Chief among them is the direction of the liquidity flows that continue to help support the market.

Several factors appear to be undermining the so-called *zaitech* strategy, by which corporations diverted revenues from fixed investment into financial assets. *Zaitech* investors have been increasingly skittish since the Tachibana Chemical Co., a medium-sized manufacturer, disclosed market losses of some \$200 million last September.

Black Tuesday also played its part, market analysts say. Many *zaitech* players, including some of the nation's most revered corporate names, are now believed to be sitting on substantial unrealized losses, although none has been disclosed.

Most important, however, is the economic



Nobumitsu Kagami.

resurgence itself. There are signs that major corporations are reinvesting in productive capacity again to stay competitive in an environment of strong domestic growth.

"A lot of companies must be thinking about whether *zaitech* is something to continue engaging in," says Nobumitsu Kagami, managing director of Nomura Investment Management Co. "We already see a gradual shift of funds from financial assets to real assets."

Not surprisingly, fund managers are looking chiefly for stocks with high earnings potential, low multiples and a substantial exposure to the domestic economy. The sectors most favored: retailing, machinery and machine tools, electronics on a selective basis and housing-supply industries.

Unlike most analysts, Ron Napier, a senior analyst at Salomon Brothers Inc. in Tokyo, favors financial issues because they, too, now have multiples in the mid-20s and because 1988 will be a significant year for financial deregulation in Japan.

He mentions Nomura among the brokers and the two big Japanese trust banks, Mitubishi and Sumitomo, among others. As always, the sector is also a play on the market itself.

"If you believe in Japanese crashes, stay out," Mr. Napier says. "If you think the market's coming back, they can be very good buys."

Patrick L. Smith

EUROPE:

Continued From Page 7

"The lows we've seen so far will be tested again," he says. "Anyone buying now might find that there is a lower price to be achieved on major markets."

Hardly more optimistic is Tony Thomson of American Express Asset Management in London. "The French have a word for it: *maree basse*," he says.

Whatever happens, Europe's bourses will be left largely to local investors, say the professionals. Big, foreign institutional investors found it difficult to exit from European markets when the crash hit and will be slow to return, the reasoning goes.

"You had a situation where for a couple of weeks liquidity just about disappeared in the Continental stock markets," Mr. Thomson says. "They were grid-locked. There was a day where there was no market-making in German stocks. And that's the fourth-largest stock market in the world."

While the Oct. 19 plunge caused liquidity problems around the world, they were more

severe on the Continental markets because "there are no natural buyer groups" to come to the rescue when a sell-off occurs, Mr. Thomson says. Pension funds, he notes, are not a factor in Continental exchanges, while German and Swiss insurance companies "consider themselves daring" if they allow equities to represent more than a few percentage points of their portfolios.

The strategy of Peter Hadden, pension fund investment manager at Ivory & Sime in Edinburgh, is typical of the investors who remain. "We're now reorienting defensively, coming out of economy-sensitive and currency-sensitive stocks such as consumer durables and autos, while adding those stocks where there's a clear visibility of earnings growth over the next few years," he says.

Export-dependent stocks in Germany, Switzerland and the Netherlands are seen as the most vulnerable. These companies will feel the effects of the lower dollar in their sales and profits in North and South America and the Far East. Further complicating their outlook has been a recent 2 percent-plus rise in their home currencies against the Latin currencies, particularly the French franc and Italian lira.

Not surprisingly, the stock market declines in Frankfurt, Zurich and Amsterdam since Oct. 16 have been more severe, ranging from 29 to 31 percent, than in Paris, Milan and Brussels, which ranged from 11 to 21 percent. Rainer Decker, analyst with Commerzbank in Frankfurt, says German chemical and pharmaceutical stocks — including BASF, Bayer, Hoechst — should prove to be solid defensive stocks.

Mr. Thomson's defensive picks include Veba and RWE, utility stocks. In Switzerland, defensive plays on Mr. Hadden's list include insurance groups Swiss Reinsurance, Zurich Insurance and Winterthur as well as coffee and confection group Jacobs Suchard.

On Amsterdam's market, Mr. Hadden believes National Nederland, the insurance group, should show earnings growth next year. Unlevered, though pricey, "still has to be a core holding in any European portfolio," he says.

For the Paris market, Mr. Hornett of James Capel sees the CAC course index ranging from a high of 325 to a low of 260 in the year ahead. In early December it was hovering around 295. "I was expecting economic growth in France of 2.5 percent," Mr. Hornett says. "Now I'd be very surprised to see growth over 1 percent."

"If you have to be in France," Mr. Hornett says, the most defensive plays for 1988 will be utilities such as Générale des Eaux and Lyonnaise des Eaux, food group BSN and the retailer Carrefour.

Jerome Labin, analyst with Jean-Pierre Pinatton, a Paris broker, believes communications stocks such as Hachette and Havas may be good bets, especially if a recession develops. Television broadcasters TF-1 and Canal Plus are particularly attractive, he says.

"It's black humor, but in a sharp recession, people stay at home and eat yogurt in front of their TV," he reasons. "They want to dream and laugh, not think about reality. In the '30s it was cinema, but in the '80s it will be TV."

London-based investment analysts were particularly wary of Italy's stock market in the year ahead, pointing to political uncertainties and its export dependence on Germany, which buys for 40 percent of Italian exports. A no-growth scenario in Germany, they say, would also batter Italy.

Mr. Valeri is projecting economic growth of at least 2.2 percent, which he said should aid the companies involved in the domestic market. Good bets, he said, are insurance companies Generali and Assitalia; cement producer Italcementi; coated-paper maker Burgo, and utilities SIP and STET.

"I'm not bullish," Mr. Valeri said, "but for the short term I think Italy is better off than the other European markets."

Jacques Neher

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GOLD

Coin Sales Soar Despite a Hesitant Gold Market

The mints are working hard to meet demand

By Cynthia Catterson

THE gloom that has clouded the stock markets since October has swelled the ranks of investors in bullion coins. But while precious metals may have a universal appeal, experts caution that not all gold coins hold the same kind of global attraction.

Worldwide sales of gold coins increased fourfold in the two weeks following the collapse to more than 500,000 ounces, the Gold Information Center reports. Sales of the U.S. Silver Eagle coin, the current market leader in silver bullion, were even more dramatic. The U.S. Mint says sales rose from 100,000 ounces in the two weeks before the market drop to more than 600,000 ounces in the two weeks afterwards.

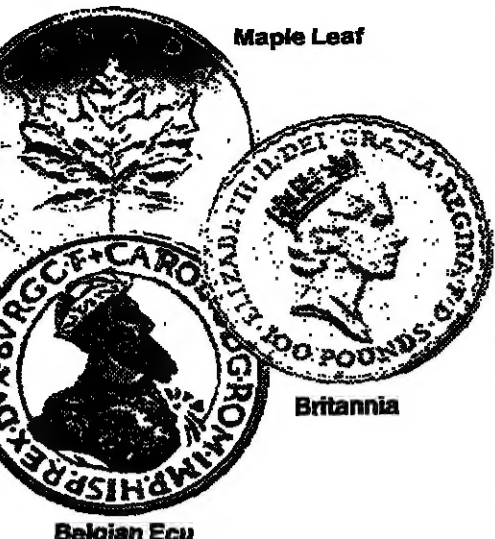
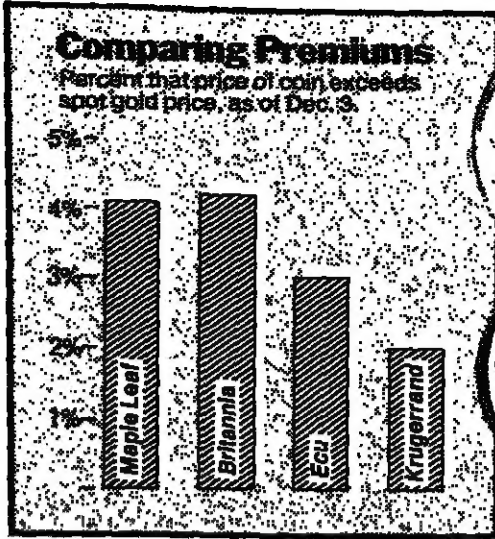
In the absence of another crisis in the financial markets, few metals experts believe the recent high level of demand for coins can be maintained. After all, precious metals prices have been unable to sustain much of a rally in the wake of the Oct. 19 debacle. But most believe the interest in coins will continue.

Stephan Gotwald, vice president at GoldCorp Australia, the government mint, says overall sales of the Australian Nugget have surpassed 300,000 ounces since that coin's introduction last April 23. "It seems certain that sales will exceed our annual forecast of 400,000 ounces," he says.

In large part, the popularity of precious metals coins reflects the desire of investors to diversify their portfolios. And the uncertainties surrounding the financial markets has apparently accelerated purchases. "Precious metals are traditionally seen as a safe haven in turbulent times, and for small investors coins are the easiest way to invest in metals," says Alan Posnick, vice president at Manfra, Tordella and Brookes, a New York coin dealer.

Nowadays, many money managers routinely recommend that an individual's portfolio contain gold. Allocations range between 5 percent and 15 percent of total assets even though precious metals prices are still uncertain.

Indeed, metals analysts are hesitant to make any solid projections for metals prices in the coming year until they have a better grasp of the economic indicators. "It's a difficult time right now to have any unshakable views," says Steve Chronowitz, vice president of futures research at Smith Barney.



He believes gold has the potential to rise above the \$500 level, perhaps approaching \$600 during 1988. Silver, whose role as an industrial metal tends to be emphasized when there are economic concerns, has weakened. But Mr. Chronowitz reckons that prices could move to the \$8 area, if there is no recession.

"At this point everything is up in the air," agrees Bernard Savaiko, senior precious metals analyst at Paine Webber. He believes gold prices will gradually move higher as the U.S. dollar continues to decline. "It has a chance of testing \$510, and going perhaps as high as \$580 before the end of next year," he says.

As for silver, he cautions that prices could be depressed, perhaps to as low as \$3.50 per ounce, if there is a recession. If not, prices could move up to \$7.50 or \$8 by the end of next year, he says.

Demand has been strongest for the coins minted by the United States, Britain and Australia, all of which launched national bullion coin programs this year. The Canadian Maple Leaf, the oldest among the popular coins, is also selling well.

For the most part, a coin's attractiveness is gauged by its "premium," the price it commands above its gold content. Fritz Plass, senior vice president at Deutsche Bank AG in Frankfurt estimates that the four most popular coins trade at roughly the same premium, which ranges between 5 percent and 6 percent above the price of gold.

The South African Kruggerand's premium is about 2 percentage points lower than the other four, but many investors have shied away from the Kruggerand because of political concerns. Moreover, prohibitions on new sales in countries like West Germany and the United States and the possibility of future bans create serious resale problems.

Still, Mr. Plass says that there is an active secondary market for the coin. "After the Maple Leaf, the Kruggerand is tied with the Britannia in turnover sales, followed by the Eagle and Nugget coins, in third and fourth place."

Now that South Africa has stopped minting the coin, Mr. Plass says the political repercussions are moot. "But for investors looking to build a nest egg with gold, the savings on the premium is not worth the risk," he says.

John P. Norris, vice president and head of precious metals trading at Citibank, agrees. "You want to

know that your coin will be accepted anywhere," he says.

Although the major coins account for 95 percent of the market, other coins continue to draw some attention.

Trading at a much higher premium, yet still appealing because of its numismatic qualities, is the Chinese Panda. "The design of the coins change each year and they are minted in limited editions," says Mr. Posnick at Manfra, Tordella and Brookes. Premiums on Panda coins have ranged as high as 20 percent.

The half ounce Belgian Ecu was introduced about 3 months ago and carries about a 4 percent premium. Preliminary sales of the European Currency Unit coin are strong, experts say, because of the keen interest of collectors in new coins. Moreover, low weight coins are more affordable to individuals. Still, dealers doubt the coin will rival the current major bullion coins.

While dealers say that the new bullion coins introduced this year have helped to widen the coin investing market, they question how much room is left for new entries.

Bruce Kaplan, senior vice president at A-Mark Precious Metals, in Beverly Hills, California, suggests that the going could get tough for the Britannia coin, for instance, once the novelty wears thin.

"It's going to be a rough upward battle for the Britannia because the Eagle and the Maple Leaf are already entrenched and backed with large promotional budgets," says Mr. Kaplan. He estimates that the Britannia will capture roughly 4 to 5 percent of the world market after its first year.

"Quite clearly we have seen the saturation point for new coins," adds Deutsche Bank's Mr. Plass. "Unless someone has a brilliant idea for something new. For now everyone has their me-too products and I think the market is satisfied."

How Pure Is Pure?

Next to liquidity and premiums, factors such as design and purity come into play when choosing a coin. The Canadian Maple Leaf and the Australian Nugget are 0.9999 percent pure gold. But the Eagle, Britannia and Kruggerand have a 0.9167 purity because a copper and silver alloy has been added to harden the coins. The purity of the Belgian Ecu is 0.9000.

Although the differences appear slight, the purity issue remains at the center of a curious debate among

serious collectors. And the disagreement has yet to be resolved.

Those who favor the less pure coins argue that these gold pieces are more durable than the so-called "4.9s." The purists, however, insist that coins with the highest gold content maintain their premiums over time. Alloyed coins are less valuable on the resale market, they say, because of mark-down costs associated with removing the other metals.

PROFILE

Mining Asia's Small Markets

Continued From Page 7

Asia's largest export market, Mr. Mobius also expects Japan to play a direct role in supporting Asian equity markets as Japanese mutual funds and institutions accustom themselves to overseas share ownership.

"The Japanese are only beginning to get their feet wet in foreign equities," he says. "The collapse won't necessarily accelerate this, but these markets are becoming steadily more attractive to them anyway."

Seoul and Taipei — markets Mr. Mobius avoided astoundingly earlier on — are now his favorites in the region. The Taiwan Stock Exchange is off 42 percent from its high this year. Although the Korean market has fallen only 6 percent, Mr. Mobius is interested in convertible bond issues such as Samsung's, which have dropped much further.

Most of his effort, however, has been toward finding indirect plays in these two markets, since direct investment by foreigners is banned. South Sea Textiles, a Hong Kong-listed concern, has recently brought a Taiwan subsidiary into the listed company, for instance.

Another example is Elders IXL, the Australian conglomerate that listed a subsidiary in Hong Kong several months ago. Elders Investments (Hong Kong) Ltd. has two glass-manufacturing units in South Korea.

"I don't want to be locked into any of these companies," Mr. Mobius says. "But at the end of the day, Korea and Taiwan are the most dynamic countries in Asia. You've got to be there when you can."

The next target is Thailand, whose economy is entering a classic take-off phase fueled partly by an influx of new investment from Japan and elsewhere. The Securities Exchange of Thailand has fallen 39 percent since its October high.

The stocks Mr. Mobius is accumulating are the familiar blue chips: Bangkok Bank, Thai Farmers Bank, Siam Cement and Industrial Finance Corp. of Thailand. Because of the ceilings placed on foreign ownership of Bangkok shares, buying into such issues in quantity is now possible for the first time all year.

When it comes to Manila, liquidity and depth remain chronic problems. Nonetheless, Mr. Mobius is attracted by Philippine Long Distance Telephone, San Miguel and Philippine International Commercial Bank.

"We're not really interested in whether Mrs. Aquino faces another coup, or whether there's a devaluation," Mr. Mobius says of his Manila investments. "The underlying earning power is there, even if you've got instances when things look rather bad."

Although the Singapore and Kuala Lumpur markets have fallen 43 percent and 38 percent, respectively, from their peaks, Mr.



Mark Mobius: Pre-crash value was scarce.

Mobius remains cautious about them because they are traditionally the priciest of Asia's small markets.

Airline System to the Emerging Markets portfolio. In Singapore, he is only looking. "I may start buying at some point," he says, "but the values have simply been too high for us to go in."

In Kuala Lumpur, Mr. Mobius is adding Malaysian International Shipping Corp. and Malaysian

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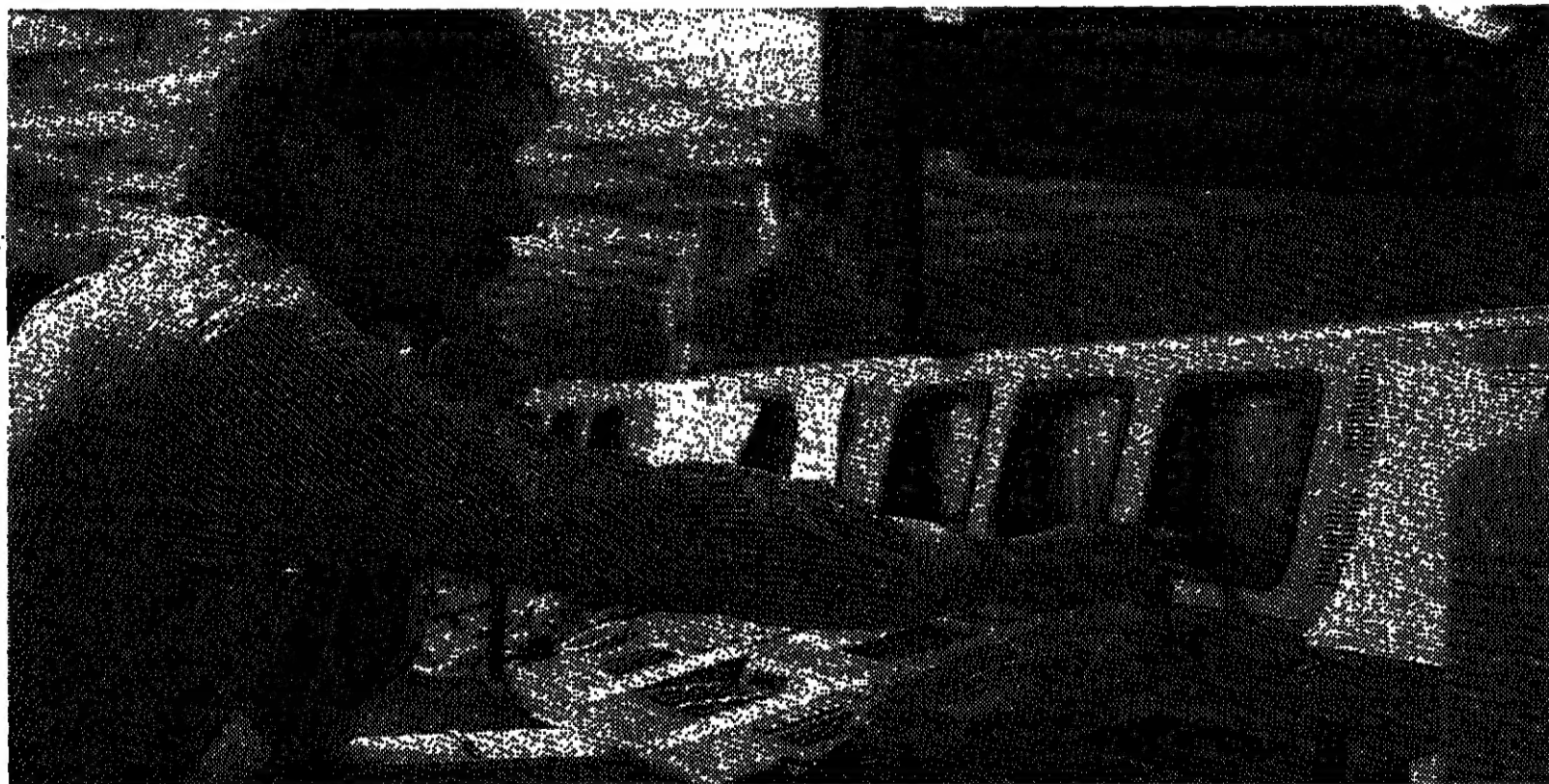
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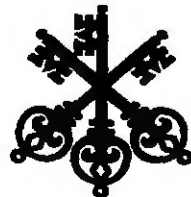
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COLLECTING

Three Cases Of Mounting Enthusiasm

By Alice Oshins

BEYOND conventional collectibles such as English silver or Oriental carpets lies a part of the market driven by fashion or nostalgia. It is here that the market's alchemy can best be seen as it transforms cast-offs and curiosities into prized objects on the auction block.

One of the thrills of collecting is spotting these trends early while the items are still affordable. Conversely, there is the satisfaction of finding some long-treasured personal object is suddenly in vogue.

The trends strike quickly. "Enthusiasm escalates," says Maggie Bishop, decorative arts consultant for Bonhams in London. "And when people start to see the prices going up, it just snowballs."

These niche markets are often volatile, but that hardly deters collectors, who tend to be driven more by passion than profits. Here are three areas that caught fire this fall and bear watching in 1988, say observers of the auction scene:

Animator's Art

Fans of Walt Disney animation have long been willing to pay as much as \$30,000 each for celluloids, the gouache paintings used to produce the cartoon films. But as recently as 1982, auction houses found no market in the preliminary sketches for the celluloids. The sketches were simply given away with the celluloids, recalls Dana Hawkes of Sotheby's in New York.

"We couldn't get a price for the sketches," she explains, "so we put them in with the celluloid to complete the package."

That changed last June at a Sotheby's comic art auction in which a preliminary black-and-white drawing of Snow White and five dwarfs fetched \$1,400. A drawing of Bambi sold for \$1,000.

"While a sketch won't fetch the overall price of a celluloid, they are definitely moving up in their own range," she says.

Ninety out of 100 preliminary drawings at a Christie's comic art auction last month were sold, many at far above estimates. A three-color storyboard of Dumbo sold for \$1,000, double its estimated price of \$500. An original sketch of "Steamboat Willie," one of the earliest Mickey Mouse shorts, fetched more than \$800.

Celluloids command a higher price than sketches because they are in color, says Ms. Hawkes. But as collectors come to know more about Disney's work, they are realizing that the preliminary drawings are closer to the original work of the artist. The celluloids were copied from the drawings.

In the preliminary drawings, the artist tested character, scene and storyline. "People are seeing the artist work in the drawing and not in the finished product," she says.



A 1942 sketch of Disney characters Bambi and Thumper.

Lalique Bottles

Collectors have been fascinated by the art of René Lalique since he began to design jewelry and glass in the 1890s, but recently a new market in his perfume bottles has emerged. These exquisitely crafted bottles are appreciating faster than other examples of Lalique design.

In 1907, François Coty, the perfume producer, persuaded Lalique to design a bottle in which Coty's perfumes would be sold. Until then, bottles were purchased separately and refilled as needed. Over the next 35 years until his death in 1945, Lalique produced hundreds of designs in bottles that women purchased separately or with perfumes by Worth, Roger et Gallet, Guerlain and Molinard.

At Sotheby's auction in November, two lots of three perfume bottles by Lalique were sold at more than double their \$1,200 estimate. At an October auction at Bonhams in London, a bottle of Baïser du Faune, a scent by Molinard, was auctioned at \$4,400, a record for a perfume bottle.



Sotheby's sold this copper-and-silver tea caddy for \$800.

"This market for Lalique is exploding," says David Weinstein, New York collector. "We weren't seeing these prices for the perfume bottles years ago. As people move into the market, we're seeing much higher values."

While most bottles cost upward of \$100, premiums are paid for those with color, elaborate designs or stoppers and in the original packaging. "Collectors are scouting not only for beauty but for rarity in this market," says Bernard Danenberg, Paris-based dealer and specialist in Lalique. "In some cases, you can name your price for a very rare bottle."

Mixed Metal

When a piece of late 19th-century American mixed-metal flatware or hollowware comes up at auction, says Sarah Shinn Negrea, silver specialist at Sotheby's in New York, it typically goes at about double last year's prices. "It's not a matter of inflation," she says, "these items are really being pursued."

At an October auction at Christie's in New York, a 142-piece, mixed-metal Tiffany flatware set, which was estimated at \$10,000 to \$15,000, sold at \$99,000. A Gorham silver-plated with a copper handle in the shape of an elephant, estimated at \$3,000 to \$5,000, fetched \$8,800.

American mixed metals were made in the 1880s and 1890s by Tiffany, Gorham and Whiting, among others. These pieces reflected society's reaction to industrialization and yearning for the work of the craftsman by their hand-hammered surface, mixing of metals, whimsical design and nature motifs.

"People are seeing how original and fun these pieces are," observes Ruth Crocker at Christie's. "They are really a highpoint of American design."

The silver pieces with gold, copper or brass are most highly sought after, says Ms. Crocker. But work that is mainly copper has also begun to entice collectors. For example, Ms. Shinn Negrea says a Gorham copper and silver tea caddy, which sold at its \$800 estimate last month, would not have topped \$300 three years ago. "Perhaps, that's another good area to start collecting," she says.

STRATEGY

January: Assessing The Effect

IT'S THAT time of year again. Around mid-December, students of the stock market can be heard debating the probable outcome of the "January effect," one of the most intriguing anomalies in investing.

In all but four years since 1938, stocks with small market capitalizations — generally less than \$200 million — have outperformed large stocks in the month of January. The effect is also observed in stocks that were selling at prices sharply below par levels in recent months and in issues that do not pay dividends.

This year, the January effect is drawing more than the usual amount of interest. One reason is the October stock market debacle, which hit smaller stocks relatively harder than larger stocks. Another reason is the publication of a book, "The Incredible January Effect: The Stock Market's Unsolved Mystery," by two academics, Robert A. Haugen, professor of finance at the University of California at Riverside, and Josef Lankishok, a professor of finance at the University of Illinois at Chicago-Urbana. (The publisher is Dow Jones Irwin Books of Homewood, Illinois.)

In a lively, almost narrative style, the book reviews the vast amount of literature on the January effect, which has ignited some heated debate. Among the numerous theories explaining the effect is one based on tax-loss selling.

The argument is that investors tend in December to sell their worst-bit stocks, both large and small, to record capital losses as tax write-offs. Then, in January, the small stocks with narrow market capitalizations tend to show a bigger percentage bounce when investors re-enter the market.

The tax-related argument has been undermined a bit by studies of non-U.S. markets that show a January effect in countries where there is no capital gains tax or where the tax year ends during the middle of the year. Studies of British shares show both a January effect and a weaker April effect, which coincides with the close of the U.K. tax year. Other theories cite the tendency of investment managers to cull out the weakest issues or lesser-known stocks from their portfolios before showing the books to clients at year-end.

Most of the January effect is found in the first two weeks of the month. Indeed, last January the effect was virtually confined to the first two weeks, and small stocks underperformed for the last two weeks.

That made 1987 one of the four

Market Scoreboard

Stocks on the New York, London and Tokyo exchanges that showed the largest percentage gains and losses in November

GAINERS			LOSERS		
	Percent Gain	Price Nov.30		Percent Loss	Price Nov.30
New York Stock Exchange:					
Compiled by Media General Financial Services. Prices in dollars					
E.F. Hutton Group	62	27.50	Environ TRT & Tech	51	10.38
USF&I Inc.	45	26.00	A.H. Robins Co.	34	13.50
Pennzoil Co.	45	75.00	Stop & Shop Cos.	32	17.50
Amex Gold Inc.	41	23.88	Baker Hughes Inc.	31	11.83
Asarco Inc.	30	25.38	Norsk Hydro ADR	30	20.13
Bell & Howell Co.	29	66.38	Club Med Inc.	29	12.13
Pay'n Pak Stores	27	15.25	Brumswick Corp.	28	10.00
Northeast Savings	26	15.13	Computer Factory	28	13.00
Hoeft Mining Corp.	26	15.13	U.S. Shoe Corp.	27	11.00
Am. Barrick Resources	26	21.50	Harley-Davidson	27	11.00
American Stock Exchange:					
Compiled by Morgan Stanley Capital International. Prices in pence.					
St. Joe Gold Corp.	60	16.63	Hal Inc.	33	19.50
Arundel Corp.	55	35.00	Taiwan Fund Inc.	27	26.00
O'Keefe Copper Co.	45	11.25	Western Digital	24	12.50
Beard Co.	36	13.13	Texas Air Corp.	24	10.83
Duro-Test Corp.	27	14.63	A.O. Smith (A)	24	11.63
Over the Counter:					
Compiled by Morgan Stanley Capital International. Prices in pence.					
Sippican Inc.	92	18.00	Driefontein Consol.	42	12.63
Matrix Science Corp.	58	13.00	Charming Shoppes Inc.	36	11.14
Seaman Furniture Co.	54	22.75	Wyse Technology	35	16.00
Eastern Bancorp Inc.	53	17.25	Baldwin & Lyons (A)	29	12.00
Stanline Inc.	47	10.50	Norsk Data ADR (B)	29	12.75
London Stock Exchange:					
Compiled by Morgan Stanley Capital International. Prices in pence.					
Thorn-EMI	14	537	Kleinwort Benson	37	285
Wellcome	10	373	Davy Corp.	34	143
DeBeers (S.Africa)	9	597	Ultramar	32	240
Great Portland Estates	7	230	Lax Services	29	828
Ranks Hovis McDougall	7	281	BAA (British Airport)	27	203
Renkote Group	5	174	Willis Faber	26	104
Genital Whitley	5	180	Rolls-Royce	25	249
Rothmans International	5	363	Woodworth Holdings	25	195
Charter Consolidated	5	296	Dixons Group	24	113
Tate and Lyle	5	650	BBA Group	24	113
Tokyo Stock Exchange:					
Compiled by Morgan Stanley Capital International. Prices in yen.					
Joshin Danki	21	2,290	Tokyo Land	16	750
Toyo Sash	18	5,880	Tokoku Oil	15	790
Sony	16	4,700	Tokyu Corp.	15	1,390
Hind Motors	15	530	Sumitomo Realty & Dev.	14	1,130
Yamanouchi Pharm.	15	3,800	Sagami Railway	14	760
Matsushita Comm.	14	3,620	Mitsui Osk Lines	13	285
Nichii	13	1,470	Keihin Electric Exp.	12	1,020
Eisai	12	2,010	Okumura	11	1,010
Stanley Electric	12	830	Mitsui Warehouse	11	8,200
Anritsu Electric	12	2,480	Takashimaya	11	1,400

years since 1938 with no January effect. It also was an object lesson in the potential difficulty of trying to exploit the effect. In any event, it is important to remember that the January effect only calls for small stocks to outperform large ones in most years, which could simply mean they do not fall as far as large stocks.

"There are two things to keep in mind this year," says Mr. Haugen. The first, he says, is that research shows that "you can expect the January effect to be roughly twice as big if prices fall during the months of July through November."

Given the wrenching decline of

recent months, "you would expect the effect to be larger," he notes.

But an opposing force is the far greater volatility of the market than in past years, he warns. "The market is reacting very sharply to news," he says. "If we get some negative information that affects small stocks, that could offset the effect."

Mr. Haugen's book suggests a number of ways to play the January effect using futures contracts, index options and the direct purchase of shares. But the easiest way for individuals is using mutual funds that focus on smaller stocks. It helps if the fund is run by a management group that al-

lows low-cost or free switching among funds, which keeps the transaction costs low. Two examples are Fidelity OTC Fund and the T. Rowe Price New Horizons Fund.

He cautions against using small-company mutual funds that tend to call out their worst performers, as this amounts to shedding the very issues that would be expected to show the most bounce. Another possibility is U.S. mutual funds that specialize in international markets, he says. The January effect seems far less related to size in non-U.S. markets, Mr. Haugen says.

William McBride

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6 16 26 36 46	6 16 26 36 46	6 16 26 36 46	6 16 26 36 46	6 16 26 36 46	6 16 26 36 46
7 17 27 37 47	7 17 27 37 47	7 17 27 37 47	7 17 27 37 47	7 17 27 37 47	7 17 27 37 47
8 18 28 38 48	8 18 28 38 48	8 18 28 38 48	8 18 28 38 48	8 18 28 38 48	8 18 28 38 48
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Bonds: Disdain for the Dollar

Continued From Page 7

four-fifths of the 25 percent return on yen bonds and the 23.8 percent return on Deutsche mark bonds this year.

In contrast, U.S. government bonds have returned a scant 0.80 percent this year, according to the Salomon Brothers index. Investors who keep their books in yen or Deutsche marks have seen deep losses on the U.S. bond portfolios.

Currency becomes an even more crucial factor than usual in 1988, say many analysts, because the interest rate outlook is far less certain. Investors will not be able to count on further dramatic interest rate cuts in the major economies to push up bond prices. Indeed, more than a few analysts are worried that 1988 will see higher interest rates.

Salomon Brothers' strategists see a brief period of sluggishness in the U.S. economy followed by a revival that will push interest rates higher in the latter part of the year. They also expect monetary conditions to be less accommodative in Europe and Japan.

Jeffrey Hanna, a managing director, told clients at the firm's annual briefing last week that the result will likely be "a scary year for portfolio managers."

Not all analysts are that pessimistic about the U.S. interest rate outlook. Michael Rosenberg, an international fixed-income strategist at Merrill Lynch, believes U.S. bond prices have been hammered down so far that they "offer attractive value at these levels" over the next three to six months.

The U.S. economy is not as vibrant as some would believe, says Mr. Rosenberg. "I think we're going through a significant slowdown in U.S. money supply growth," he says.

Meanwhile, rapid growth in the money supply and heightened economic activity in Europe and Japan could raise inflationary expectations in those economies, he cautions. "You're not going to see a great deal of improvement in the German bond market," he says.

This scenario foresees U.S. interest rates falling a bit and European and Japanese rates moving up some.

Mr. Rosenberg's bond portfolio recommendations place about 25

A buoyant economy and a still weak dollar also spell higher inflation, a major worry for bond investors, warns Aiden Hatton, a portfolio manager at Alliance Capital Management in New York. "I think it's going to pick up significantly," he says. "There may be times that it will look like it's going to be in double digits, but I don't think it's going to get there."

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OTC Consolidated trading for week ended Friday. Dec. 11

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French Bank
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EXHAUST. FA

New International Bond Issues

Compiled by Laurence Desvignes

Issuer	Amount (millions)	Mat.	Coup. %	Price	Price end week	Terms
FLOATING RATE NOTES						
Samwa Int'l Finance	\$100	1993	0.10	100.10	99.90	Over 6-month Libor. Callable at par in 1991. Payable Jan. 14. Fees 0.10%. Denominations \$100,000.
Wings 3	\$37.4	1992	0.20	100.10	—	Over 6-month Libor. Noncallable. Fees 0.11%. Denominations \$100,000.
Fuji Bank Luxembourg	ECU 60	1992	0.45	100	—	Below 3-month Libor in first year, and 0.325 below Libor thereafter, payable semiannually. Redeemable at par in 1998. Fees 0.15%. Denominations 500,000 francs.
Corpio	¥10,000	1993	0.55	100%	—	Below the Japanese long-term prime rate, semiannually. Noncallable. Payable Jan. 12. Fees 0.50%. Denominations 10 million yen.
FIXED-COUPON						
IKB Int'l	DM 75	1995	6	100%	—	Noncallable private placement. Payable Jan. 18. Fees 1.14%.
Industrial Credit Corp.	DM 50	1991	5	100	—	Noncallable private placement. Payable Jan. 13. Fees 1.14%.
Mount Iso Finance	DM 200	1994	6	100	97.60	Noncallable. Payable Jan. 7. Fees 2.16%.
Swedish Export Credit	DM 300	1993	5%	100%	98.80	Noncallable. Payable Jan. 15. Fees 2.26. Also 120,000 two-year warrants, priced at 125 marks each, entitling holders to buy 510 of a fixed exchange rate of 1,972 marks per dollar. Breakdown rate 1.79.
East Asiatic	DK 250	1991	11	100%	98.50	Noncallable. Payable Jan. 13. Fees 1.14%.
Federal Business Development Bank	CS 75	1991	10%	101	99.25	Noncallable. Payable Jan. 14. Fees 1.14%.
IML Bank Int'l	¥15,000	1992	5	101.35	99.48	Callable and redeemable at par in 1991. Fees 1.14%.
EQUITY-LINKED						
Ranks Hovis McDougall	£ 59	2003	4%	100	103.00	Redeemable at 130.70 in 1993 to yield 9.95%. Convertible at 250 pence per share, at 17% premium. Fees 2.16%.

French Bankers Uneasy Over Multi-Options Rise

By Carl Gewirtz

PARIS — The popularity of multi-option facilities for French companies looking to replace more expensive credit lines shows no sign of abating, despite the large number already marketed.

The latest entrants are Moët Hennessey, Compagnie de Navigation Mixte, La Redoute and Compagnie Bascadre.

But increasingly, French bankers are questioning whether companies

are really getting what they think they have and whether participants fully understand the commitments they have undertaken.

In principle, the facilities are to be used as backstops for raising short-term funds. The borrowers do not expect to have to draw on the underwriters and, apparently, the underwriters do not expect to have to lend. But accidents and emergencies do happen.

Participations in the facility are open only to banks operating in France as they all contain the provision for banks to lend domestic francs. However, the charge to borrow in France is much higher than the cost to draw in foreign currencies. That is because the borrowers agree to pay the banks' reserve asset costs for loans in France.

Typically, the franc drawing charge is 10 basis points over the Paris interbank rate. In contrast, the cost for foreign currency drawings is set at *Libor* flat, no margin over the London interbank offered rate.

However, it is obvious that if the line is ever used, the borrower will choose first to draw lower cost foreign currencies.

This will be no major problem for participating banks so long as they are major institutions or are affiliated with one that is capable of lending at *Libor* and still earning a profit. That is not a problem for big banks, which recently have been funding themselves at rates significantly below the London interbank bid rate, which itself is usually 1/4 point below *Libor*.

But Paris bankers are concerned that many small regional French banks that have joined underwriting syndicates do not have the resources to sub-libid funding. More likely, they would have to borrow funds in the interbank market at least at *Libor* if not at a small margin over it, and most likely the facility fee paid on the multi-option facility would not be large enough to cover the bank's funding cost.

This raises two questions, bankers say: Do the banks realize they risk having to lend at a rate that leaves them no profit and possibly a loss? And do the companies realize that, if the going gets rough, some of the underwriters would find themselves unable to fulfill

their contractual lending obligations?

Bankers privately say they are concerned that the number of unaffiliated small regional banks joining syndicates is increasing, taking the place of foreign banks operating in France as the foreign banks' appetite for such business wanes.

Some transactions still command a major presence of foreign banks. The aero-engine group SNECMA, for example, increased the size of its multi-option facility to \$480 million from the \$300 million announced and reported that 53 percent of the underwriting was provided by banks whose parent was based outside France.

But in a number of recent such facilities, the participation of foreign banks was well below 50 percent.

The champagne and agricultural group Moët, the latest entrant, is seeking a \$350 million multi-option facility for five years. It will pay an annual facility fee of 5 basis points and a utilization fee of 3 basis points for drawing less than 50 percent and 6 basis points for drawing more. Participation fees range up to 6 basis points for banks underwriting 50 million.

If Moët draws on the facility, it will pay 10 basis points over *Libor* to borrow francs and 2 basis points over *Libor* for foreign currencies. The company has the right to draw funds for one, two, three or six months.

It also has the possibility of drawing for 12 months, but that first must be approved by a majority of the underwriters.

La Redoute, the French retailer, is seeking a line of 150 million European Currency Units to run for five years with the possibility of extending to seven years. The annual facility fee is 6 1/2 basis points.

Drawing charges are set at an identical 1 1/2 basis points over either *Libor* or *Libor*. If more than a third is drawn, there will be a utilization fee of 3 basis points and if more than two-thirds is used, 6 basis points. Front-end fees range up to 6 basis points for banks underwriting 10 million ECU.

Navigation Mixte, a holding company, is seeking a five-year facility for 120 million ECU. Credit Lyonnais, which is arranging the facility, would not disclose other terms. Also in the market is Compagnie Bancaire, a financing and real estate group, which is seeking a five-year facility of 750 million francs.

In the international sector, Thomson-Brandt International announced that it has expanded an earlier \$400 million Euro-commercial paper program to one of unlimited size and added more dealers. Initially, Morgan Guaranty was sole dealer. The expanded group includes Banque Indosuez, First Chicago, Swiss Bank Corp. and S.G. Warburg.

BONDS: Issue Volume Slips

(Continued from first finance page)

to have much appeal, but lead manager Morgan Stanley International said it found substantial demand among retail investors and corporate treasurers.

The Euroyen market saw only one new issue, for Italy's IMI financing agency. Although Euroyen paper has recently been in considerable demand, bankers now report that a selling wave may be imminent as recent purchasers sell to profit from the currency's recent rise against the dollar.

The dollar last week hit a record low of 128.10 yen following the U.S. report of a record \$17.63 billion trade deficit in October.

The only dollar issues offered last week were of the floating-rate variety. An issue called Wings 3 was a repackaging of Japanese fixed-rate bonds stripped of their equity warrants, and was offered to yield 20 basis points over the London interbank offered rate.

Sanwa International offered \$100 million of senior notes, which rank equal to deposits, carrying a coupon of 10 basis points over *Libor*.

Italian Bank Sets Purchase In Argentina

Agence France-Press

BUENOS AIRES — The Argentine government has accepted a bid by Italy's Banca Nazionale del Lavoro to buy one of Argentina's largest private banks, the central bank announced Saturday.

The Italian bank will take over all 88 branches of Banco de Italia y Rio de la Plata, which has had full Argentine shareholding, despite its name.

The purchase price was not revealed. The central bank closed Banco de Italia in May 1985 after rejecting a reorganization plan and deciding that the bank's liquidity problems were too serious to be solved by further official loans.

In a period of two months around that time, eight private banks were closed; Banco de Italia was the largest.

The bank was taken over by the government, which held talks later that year with Citicorp about the possibility of the U.S. bank's acquiring Banco de Italia.

Under the terms of the sale announced Saturday, the Banca Nazionale del Lavoro will not lay off any employees of the Argentine bank.

The purchase will make Banca Nazionale del Lavoro — Italy's second largest banking group — the biggest foreign bank in Argentina.

BRAZIL: State Sector Unyielding

(Continued from first finance page)

loans since the Latin American debt crisis began in 1982, however, the state's role has changed from one of stimulating growth to one of living off the rest of the economy. In the process, demands have grown that the state limit its responsibilities to dealing with Brazil's pressing social problems.

Referring to the end of two decades of military rule here in 1985, a former finance minister, Mario Henrique Simonsen, recently warned that "a democratic regime sustained by a centralized, wasteful and irresponsible state machine will have the same destiny as its predecessor, and will collapse."

In theory, at least, the government agrees. Two years ago, President José Sarney said economic leadership should pass from the government to a private sector freed from the chains of statism.

Conservatives within the government are also hopeful that a special assembly drafting Brazil's new constitution will reduce state intervention.

Yet, in practice, state enterprises, which employ about 1.2 million people, have proved impregnable to change. For example, soon after taking office in April 1985, the Sarney administration announced an ambitious privatization program, yet the first company listed for sale, Malfer, which manufactures railroad cars, is still in government hands.

Bureaucratic resistance is well illustrated by the case of a state construction company called Ecom, which was formed in 1969 to build an eight-mile (13-kilometer) bridge across Rio de Janeiro's Guanabara Bay. Work was completed in 1974, yet only last month was Ecom finally absorbed by the National Highway Department.

While the government can be found in a vast array of businesses, however, the main drain on public funds comes from a handful of enterprises that control essential areas of the economy, notably the electricity monopoly, Eletrobras; the steel corporation, Siderbrás; the railroad company, RFFSA; and the nuclear energy company, Nuclebrás.

Even though burdened by a debt of about \$17 billion that it cannot service, Eletrobras is required to keep spending to meet the country's growing energy demands, but it is already falling dangerously behind in its investment program.

The nuclear energy program has proved even more costly, with Nuclebrás spending \$5 billion to date on a reactor that is rarely operational.

But there are exceptions. The state oil giant, Petrobras, showed losses earlier this year for the first time in 34 years of business only because of government price controls, while the mining corporation, Vale do Rio Doce, and the aircraft manufacturer, Embraer, which export most of their products, are both profitable.

Management of state enterprises, however, is complicated by inflation, currently running at 12 percent per month. In cases where tariffs are controlled by a government anxious to hold down prices, losses are often unavoidable. In other cases, such as the oil industry, the federal government looks to put its own money to work in raising its own tax revenue.

Thus, while privatization is still widely debated as a possible solution, there is no demand to take over companies deep in the red. For many analysts, the crisis affecting many state enterprises is a symptom of a more complex problem.

"To reduce the state's role is not just to sell off companies," one economist, Francisco Viana, wrote in the weekly *Senhor*. "What is needed is a clear demarcation of the limits of state intervention."

Still, James Baker and Howard Baker are concerned enough about current monetary policy to have discussed Mr. Sprinkel's criticisms with Fed officials. "This is a nervous time," said one Fed source. "Nobody knows what's ahead for the economy because of the stock market crash."

This Fed source said money-supply growth "seems to be adequate," especially when figures for October and November are combined. He also said the central bank expects money growth to resume at a stronger pace before long.

For several reasons, the Fed is resisting Mr. Sprinkel's prescription to inject more reserves into the banking system. First, sources said, the central bank sees no evidence that the economy is contracting along with the money supply. Recent government statistics show that the manufacturing sector is more or less booming. Moreover, an overly easy policy could lead to a surge in inflation and a renewed plunge in the dollar. Lower U.S. interest rates tend to depress the dollar.

The intervention policy was moderate by European standards but certainly not inconsequential, foreign exchange specialists said. The narrative in the Cross report seems to imply that the effectiveness of the intervention policy was diluted by the DeLores episode. But New York Fed spokesmen cautioned that intervention alone cannot be expected to counter underlying economic trends.

The U.S. trade and budget deficits have been the main fundamental factors pushing the dollar lower. Nonetheless, the Fed's report raises questions about whether there has actually been a subtle change in U.S. policy, as described in recent news reports, to return to modest intervention in support of the dollar. A report on November's foreign-exchange operations will not be available until March.

From August to October, the report said, the United States intervened by \$89.5 million equivalent of marks and yen in an effort to depress those currencies against the dollar.

In early August, when the stock market and the dollar were strong, the report showed that the United States actually bought \$400.8 million worth of yen and marks to restrain the dollar.

When the latest burst of selling gained force on Oct. 27, the Fed resumed intervention to support the U.S. currency. It was the first time it had done so since early in September, when the dollar was dropping to levels not tested since late spring.

The September decline appeared to have been halted by the Fed's half-point boost in the discount rate on Sept. 4 and from anticipation that the Group of Seven industrial nations would reaffirm the Louvre agreement on currency stabilization at the meeting later that month of the International Monetary Fund.

North American Trade Pact Protects U.S. Maritime Sector, Canada's Media

By Clyde H. Farnsworth

New York Times Service

WASHINGTON — The United States will continue to protect its maritime industry, and Canada its publishing and film industries, under an agreement aimed at eliminating most restrictions on their bilateral trade by the year 2000.

The two governments released the text of their 220-page agreement on Friday, providing details on these and other exemptions aimed at placating domestic interests while trying to generate a consensus for ratification.

A framework agreement was initiated on Oct. 3, but because of misunderstandings and conflicts, it was only completed a week ago.

This delay, combined with the intention of U.S. congressional leaders to first complete omnibus trade legislation, means that Congress may not consider the accord before the middle of next year.

The agreement would end most barriers on the bilateral trade in goods and services that topped \$150 billion last year. It also liberalizes rules covering bilateral investment that last year totaled \$67 billion.

Most analysts said the exemp-

tions had improved chances for final approval.

Senator Bill Bradley, Democrat of New Jersey, said approval was "within reach." He noted that the accord was especially important at a time of economic fragility because Canadian "markets sustain more U.S. jobs than any other."

In withdrawing maritime concessions, the chief American trade negotiator, Clayton K. Yeutter, recognized that the industry's congressional supporters had the strength to torpedo the agreement, according to American officials.

For their part, the Canadians at the last minute withdrew concessions that would have reduced discrimination against American publications, such as Time and Newsweek, distributed in Canada. But an American official described the Canadian concessions as "meager."

About one-third of Canadian-American trade is in automobiles. Under pressure by American legislators from states with major automobile-related industries, American negotiators sought changes in a 1964 pact that chiefly benefited Canada. Canada strongly resisted. Two Michigan Democrats, Senator Donald W. Riegle Jr. and Rep-

resentative Sander M. Levin, said they were withholding final judgment on the agreement because of their disappointment with the results of the auto negotiations.

One of the chief demands of the Michigan Democrats was a provision requiring that at least 60 percent of the manufacturing be completed in North America to qualify for duty-free entry. In the agreement released Friday the figure was put at 50 percent.

The text provided further details on what promises to be another contentious issue for ratification: the special five-member joint panel to be used for settling disputes arising from the agreement.

Disputes involving laws to enforce fair trade would no longer be subject to review by the United States Court of International Trade, the Court of Appeals and the United States Supreme Court.

U.S. officials declined to comment Friday on remarks made earlier in the day by the chief Canadian trade negotiator, Simon Riesenman. He told Canadian journalists that Canada "took the pants off" the American negotiators, winning three times the advantages in the United States market that it gave up in the Canadian market.

IMF 'Near' to Expanding Poor Nations' Fund

Reuters

WASHINGTON — The International Monetary Fund is near agreement on an \$8 billion increase in the agency's pool of funds for poor nations, monetary sources say.

The sources said on Friday that the IMF executive board had met that day to hammer out details on how the fund, to be expanded to \$12 billion, would be disbursed, as well as other technical matters.

They said negotiations with some countries were still under way, but could be completed as early as next week.

The new funding would be provided from about 20 countries, including the Group of Seven major industrial nations, with the exception of the United States, the sources said. The other six members are Japan, West Germany,

Britain, France, Italy and Canada.

The United States had made it clear that budgetary problems barred it from providing new money for what is called the structural adjustment facility.

An administration official said the United States still feels strongly that the increase should be financed by those countries running large surpluses on their external accounts. In official parlance, such references are usually to Japan and West Germany.

"This is an excellent opportunity for them to step forward," the official said.

The country with the largest surplus, Japan, will be a major contributor, the sources said, but the exact size of its contribution was not known.

The IMF managing director, Michel Camdessus, visited Tokyo ear-

lier this month to review the nation's economic situation and discuss a contribution to the facility.

"I can tell you that I am sure of the generous support of this country," he said.

In June, Mr. Camdessus had proposed tripling the facility from the present \$4 billion to help a critical situation in the poorest countries.

There had been a broad backing for the idea during the IMF annual meeting in September, but countries at that time did not make any financial commitments.

At the same time, James A. Baker, Jr., the U.S. Treasury secretary, had proposed a wider financing program for poor countries that some IMF officials believed would distract attention from the structural adjustment facility.

Dollar Too Low, Volcker Asserts

Reuters

WASHINGTON — Paul A. Volcker, former chairman of the Federal Reserve Board, said on Sunday he thought the dollar had fallen too low and might trigger inflation in the United States and depress economies elsewhere.

In a television interview, Mr. Volcker was asked at what point the dollar's decline threatened world trade and the world economy. He answered: "In my opinion, it's already fallen further than I would like to see it."

"I don't think it's helpful to have the dollar fall at this point because I think it can be depressing on economic activity abroad," Mr. Volcker said, "and potentially inflationary in the United States."

Fed Says It Supported Dollar in Late October

Washington Post Service

WASHINGTON — The latest currency market report from the U.S. Federal Reserve challenges a widespread belief in financial markets that the central bank let the dollar slide at the end of October without an effort to stop it.

The regular report from the New York Federal Reserve Bank, the regional branch that actually undertakes any currency market intervention, covered the three months that ended Oct. 31. This included the period of the stock market collapse and of a sharp drop in the dollar's value.

According to the report, when "selling pressure on the dollar became intense on Oct. 27," the Fed intervened by \$395 million against the Deutsche mark "in order to resist a further decline in the dollar market rate" and by \$65 million against the Japanese yen.

"While these operations for a time stabilized the rate, the dollar again moved sharply lower following commentary that the U.S. authorities were prepared to allow the dollar to decline considerably further," said the report.

The "commentary" cited by the Fed report, it was learned, was a speech on Oct. 28 by the European Community president, Jacques Delors. Mr. Delors asserted that the U.S. government wanted the dollar to decline and was prepared to let it fall as low as 1.60 DM.

At that time, the dollar was hovering around 1.72 DM, down from 1.80 in mid-October and close to a record postwar low set eight years earlier. The dollar closed in New York on Friday at 1.6315 DM.

"Although the U.S. Treasury denied that the remarks reflected U.S. government policies, strong selling pressure persisted," the report said, and the Fed "continued to intervene, operating in yen as well as in marks" in concert with other central banks.

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EXHAUST: EC Rules Challenged

(Continued from first finance page)

add about \$900 to \$1,350, or 10 percent to 15 percent, to the price of a small car.

But countries that produce and buy proportionally more smaller cars, such as France, Italy, Britain, Belgium, Spain and Portugal, are said to support less stringent limits that could be met by employing so-called lean-burn engine design. Lean-burn technology reduces exhaust emissions by increasing the air-to-fuel ratio to the engine.

Klaus Kreuzberg, senior engineer for Adaro Opel AG, General Motors Corp.'s West German subsidiary, said the EC may soon propose a compromise solution that would group small cars under the standard just adopted for medium-sized cars. These limits, he said, could be met without catalysts, "but we'd certainly have to do some work."

For large cars to meet the new standards, manufacturers would be forced to use catalytic converters, but opinion is divided on whether they will be needed to meet the limits on medium-sized engines. "For years, lean-burn technology has been looked at as a panacea," Mr. Budd said, "but as of

today, there is not a single truly lean-burn car in production in Europe."

Europe's automakers have already spent more than \$2 billion on pollution control, according to industry estimates.

Analysis predicts that they will have to spend a total of \$7 billion to \$10 billion to meet the Euro norms standards by the early 1990s.

And the cost of catalysts could prompt some countries, notably Britain, France and Italy, to delay or hold off entirely on enacting the EC standard for large cars, an industry source said.

If they did, the standards would become "absolutely meaningless" in terms of their environmental impact, Mr. Budd said.

Mr. Glatz said noncompliance by some countries could also effect competition.

"If France does not adopt the standards, for example," he said, "Volkswagen would have to spend more to produce a smaller batch of cars to meet the lower pollution standards for the French market, while Renault or Peugeot would not have these extra costs in France."

Soviet-Bloc Lines Reportedly Want 6 Airbus Planes

Reuters

BERLIN — The Soviet airline Aeroflot and East Germany's Interflug are negotiating to obtain six aircraft from Western Europe's Airbus consortium, a West Berlin newspaper reported Sunday.

The newspaper Tagesspiegel, quoting aviation sources, said the plan was for the airlines to be purchased by a consortium of Western banks that would lease them to Aeroflot and Interflug. The paper did not put a price on the transaction.

Tagesspiegel said the West German carrier Lufthansa, which owns a fleet of Airbus, would train the Soviet and East German crews.

An East German bargaining chip was a Soviet-backed offer to allow Lufthansa to fly over East Germany to Moscow and make stopovers at West Berlin's Tegel airport, Tagesspiegel said. Now, West German commercial planes are forced to detour around East Germany.

NASDAQ National Market

OTC Consolidated trading for week ended Friday.

Sales in 100s High Low Close Chg					Sales in 100s High Low Close Chg				
Roanet	56	4.1	73	13%	12%	13%	12%	13%	12%
Roanet	56	4.1	73	13%	12%	13%	12%	13%	12%
Roanet	56	4.1	73	13%	12%	13%	12%	13%	12%
Roanet	56	4.1	73	13%	12%	13%	12%	13%	12%
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Roanet	56	4.1	73	13%	12%	13%	12%	13%	12%
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Roanet	56	4.1	73	13%	12%	13%	12%	13%	12%
Roanet	56	4.1	73	13%	12%	13%	12%	13%	12%


American Exchange Options

Figures as of close of trading Friday, Dec. 11

Option & price Calls Puts					Option & price Calls Puts				
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10

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Option & price Calls Puts					Option & price Calls Puts				
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10
AMR	100	1.10	1.10	1.10	AMR	100	1.10	1.10	1.10

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